

## FINANCIAL TIMES

Friday October 6 1989

No.30,965

## HUNGARY

Party faithful seek  
recipe for survival

Page 3

D 8523A

## World News

Soviets reach  
agreement on  
Afghan peace  
with Pakistan

The Soviet Union and Pakistan have reached agreement on a UN resolution that calls for an end to hostilities in Afghanistan and the creation of conditions that would enable refugees to return home.

## Estonian retreat

The rebellious Soviet Baltic republic of Estonia retreated in the face of Moscow's anger, and suspended claims in its election laws which might have disenfranchised Russian-speaking immigrants.

## Nobel peace prize

The Dalai Lama, spiritual leader of Tibet, won the Nobel Peace Prize in recognition of his non-violent struggle to free his people from Chinese rule while in exile.

## Failed Noriega coup

The coup against Panama's Gen Manuel Antonio Noriega failed partly because the US military command was caught off guard, US officials said. Meanwhile, Noriega troops entered the offices of Panama's opposition coalition and shots were heard from inside the building.

## Kremlin arms cuts

Kremlin plans for reducing forces in Eastern Europe will virtually rule out a surprise attack on NATO territory, according to a London-based intelligence unit.

## West Bank plan

US plans to take part in Israeli-Egyptian talks on West Bank elections emerged as a possible compromise for Israel's divided cabinet.

## Greek bank rules

Greek parliament passed legislation to allow the operation of bank deposits during a criminal investigation.

## Iranian move

Iran has thrown its weight behind Lebanese Muslim leaders calling for an end to the dominant role of Christians in Lebanese politics.

## Hungarian cleansing

Hungary's reformist Communist leaders called for a "cleansing of the party" and pluralism.

## S Korean sentence

South Korean court sentenced the Rev Moon Il Hwan, 71, a Protestant minister, to 10 years' jail for visiting North Korea.

## US health plans

Proposals to extend US hospital and medical benefits to the elderly have collapsed after pressure by a group of wealthy retired people.

## European mergers

European Commission said unresolved issues surrounding European merger regulation are expected to be ironed out next week.

## S African housing

South Africa's shortage of black housing is to be tackled through a \$1.1bn mortgage loan programme backed by businesses.

## Bakker found guilty

Jim Bakker, the US television evangelist, was found guilty of defrauding supporters of millions of dollars.

## Business Summary

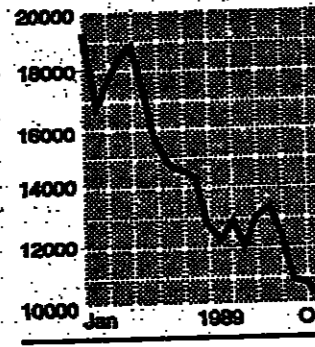
Westland to  
cut jobs and  
production in  
restructuring

WESTLAND, UK helicopter manufacturer owned by United Technologies of the US, is to shed 15 per cent of the workforce in its technologies division and halt unprofitable product lines as part of a restructuring programme to cut costs.

## Nickel

NICKEL prices closed at the day's lows on the LME, three-month metal shedding \$250.

## Cash metal (\$ per tonne)



to \$10,187.50 a tonne, lowest level for 12 months. Page 38

## DEN norske Creditbank (DnC)

and Bergen Bank, two of Norway's top three banks, agreed to merge to form Den norske Bank (DNB), which will become the seventh largest bank in Scandinavia. Page 21

## SPANISH Minister of Industry

and Energy Claudio Arce has warned that he will block attempts by foreign electricity utilities to buy into the Spanish sector. Page 21

## NEXT, UK fashion retailer

said \$80m write-off will be needed to sort out the problems which led to a dramatic fall in profits. Page 21

## GUINNESS, UK brewing group

and LVMH Moët Hennessy, Louis Vuitton, French champagne group in which Guinness has a 24 per cent stake, reported a 24 per cent rise in profits. Page 21

## AIRBUS Industrie, European

aircraft manufacturing consortium, has secured an order for 12 A-321 jets from Ansett, Australian carrier. Page 6

## BANK Indonesia, Indonesian

central bank, plans to take a more active role in the foreign exchange market. Page 26

## JAPANESE Authorities are

increasing monitoring of bank lending to real estate companies following a surge in prices in the Osaka area. Page 4

## FRENCH aerospace industry's

order book stood 75 per cent higher in the first eight months of this year compared with last year. Page 6

## GPSA, Gold Fields of South

Africa, said gold mining profits had been squeezed as cost rises outstripped modest rises in the price of gold. Page 24

## SHARES in Euro Disneyland,

operating company for the US leisure concern's theme park outside Paris, are to be priced at \$11.35 each. Page 26

## T. BOONE Pickens, Texan

corporate raider, has abandoned plans to call for a special shareholders meeting of Koito Manufacturing, Japanese motor company in which he has a stake. Page 24

## BRITISH Steel, former state-

owned corporation, strengthened its position by buying UK's largest steel stockholder for \$22m. Page 21

## JAPAN'S Ministry of International

Trade and Industry (MITI) is stepping up pressure on the motor industry to moderate domestic capacity expansion plans. Page 4

## US-MEXICAN trade and invest-

ment agreement has high-tightened the warming ties between the two neighbours. Page 6

Bundesbank leads rise in  
European interest rates

By Andrew Fisher in Frankfurt

THE BUNDESBANK, West Germany's central bank, yesterday lifted key interest rates by a full percentage point in an effort to combat inflation and strengthen the D-Mark. The increase was followed by eight other European countries.

These included Britain - which responded by raising bank lending rates to their highest levels since 1981 - France, Switzerland, Austria, the Netherlands and Denmark.

The Bundesbank's move drew only lukewarm approval from the Economics Ministry in Bonn and surprised economists by its scale. However, unlike previous rises in West Germany this year, the central bank's decision had been well heralded.

Only the size of the increase was in doubt until it announced rises in the discount rate from 5 to 6 per cent, and in the emergency Lombard funding rate from 7 to 8 per cent. These rates, for certain types of Bundesbank funding for the commercial banks, are benchmarks for bank lending to private customers and businesses.

Some economists said they had expected only a half point

## Europe's interest rate increases

Austria	Lombard: 7 1/2% to 8 1/2%
Belgium	Discount: 5 1/2% to 6 1/2%
Denmark	Bank drawings: 5 1/2% to 10 1/2%
France	Interbank: 5 1/2% to 6 1/2%
Ireland	Short-term facility: 10% to 11%
Netherlands	Discount: 6% to 7%
Switzerland	Discount: 5 1/2% to 6 1/2%
UK	Bank's base: 14% to 15%
W. Germany	Discount: 5% to 6%
	Lombard: 7% to 8%

rise in the discount rate, though they felt the scale of the Lombard increase was justified by the latest rise in money market rates.

However, Mr Onno Ruding, the Dutch Finance Minister, attacked the Bundesbank's move in a highly unusual and caustic statement yesterday. The "rather extensive" rate boost was "fully undesirable" in the light of "very high, economically undesirable" real interest rates, he said.

The Bundesbank said the moves continued its policy of countering an overheating of the economy and the dangers of rising prices and costs. It also wanted to strengthen the D-Mark and strive for a moderate rise as possible in money supply, still too high when German companies' Euro market deposits were

included. After the news of the rates rise, the dollar weakened to DM1.8620, but then closed firmer in Frankfurt at DM1.8640. In New York, the Federal Reserve, the US central bank, intervened to sell dollars.

The West German Economics Ministry said Mr Helmut Haussmann, the Economics Minister, showed a "certain understanding" of the increase. While the higher rates were a signal for stability ahead of next year's wage negotiations, the minister said he did not regard such increases as a suitable long-term means of replacing exchange rate adjustments. For political and anti-inflation reasons, other countries in Europe, notably France, have resisted devaluations against the D-Mark.

## UK increase boosts £, hits shares

By Simon Holberton, Peter Norman and Philip Stephens in London

MR NIGEL LAWSON, the British Chancellor of the Exchequer, yesterday ordered a 1 percentage point rise in British banks' base lending rates in immediate reaction to a similar jump in official West German interest rates.

The change brought base rates to 15 per cent, their highest level since November 1981, and is almost certain to lead to a rise in the cost of home loans by at least 1 percentage point. It came as the opposition Labour party was holding its annual conference in Brighton, and a week before Mr Lawson is due to address the ruling Conservative party conference in Blackpool.

Equity prices fell sharply, government bond prices rose and the pound strengthened. The FT-SE 100 Share Index lost 42 points after the announcement before rallying somewhat to close 30.5 down at 2,281.5. Sterling rose against the D-Mark but was slightly easier against the dollar. On the Bank of England's trade-weighted index the pound ended 0.3 higher at 91.5.

Mr Lawson conceded that the interest rate rise was "awkward", but said it was part of a general European increase in borrowing costs. He stressed, however, the need for Britain to keep bearing down on inflation.

"I believe that it is necessary to be cautious, to err on the side of caution and make sure that inflation really does get under control," he told BBC radio.

The Government's move followed several days of intense pressure on the pound. The Bank of England had intervened to support sterling every day since last week's announcement of a larger than expected £2bn (\$3.2bn) current account deficit for August.

part in the Government's decision to raise rates, Treasury officials also stressed the need for higher rates on domestic economic grounds.

The Treasury said the economy had not been slowing as quickly as expected at the time of the last one point rise in borrowing costs at the end of May. Officials said the latest increase reinforced the earlier rises, putting policy back on track.

The Treasury said it saw no need for a recession. Industry was strong and investment buoyant. Officials stressed that the risk to sustained growth lay primarily in high wage claims. Employers needed to keep a tight control on costs, they said.

There were signs yesterday, however, that the Bank of England was less convinced about the domestic need for the interest rate rise. It saw the move more in terms of safeguarding the Government's counter-inflationary policy through a strong exchange rate.

Because the retail prices

Mr Haussmann's reaction fell short of the usual official endorsements from Bonn of Bundesbank decisions. It clearly reflected worries that higher interest rates would damp economic growth. However, with a DM24bn (\$13.45bn) tax cut due next year, the Bundesbank was concerned to act ahead of any rise in private consumption.

Although Mr Karl Otto Pöhl, president of the Bundesbank, said a month ago that the price of the bank's latest monthly report highlighted the dangers of future inflation stemming from Germany's strong export-led growth. Yesterday's inflation figures for September showed a renewed rise to an annual rate of 3.1 per cent after 2.9 per cent the previous month. The pace of Germany's export growth, the main influence behind the robust economy, was again demonstrated by the August trade figures. The monthly surplus of DM11.2bn compared with DM9.3bn a year ago, with the surplus for the first eight months up by 15 per cent to DM58bn.

The current account surplus in January-August was 32 per cent higher at DM87.5bn.

E Germans  
make vain  
attempt to  
join escape  
trains

By Leslie Collett in Dresden

YEARS OF frustration and anger exploded in the historic East German city of Dresden on Wednesday night as trains carrying thousands of East German refugees passed through from Prague to the West.

East Germans from all over the country had congregated at the main railway station in a desperate attempt to jump aboard the trains. Thousands of others had succeeded in this way in joining the first trains to pass through Dresden last Sunday.

A crowd of about 5,000 stood in front of the station, chanting "Gorbys, Gorbys" in an appeal to Soviet President Mikhail Gorbachev, and sang the Internationale. The terminal was cordoned off by hundreds of police and factory militiamen clad in grey uniforms. Tears streamed down the faces of many who, for two days, had waited in vain for the chance to board the trains to the West and freedom.

The first clash with the police took place on Tuesday evening. The refugees were supposed to have reached Dresden that night, but were delayed by more than 24 hours as the East German leadership ordered the railway line between the Czechoslovak border and West Germany to be sealed off.

"When we got to the station at 8pm on Wednesday, it was already closed off," one young man from the Baltic port of Rostock said. "Hell broke loose when people saw there was no getting out."

He said his girlfriend had left for the West through Hungary a week earlier but he had been detained in hospital with a leg injury.

Not all of those who gathered on Wednesday in Prague Streets behind the police cordon wanted to leave East Germany. Some were Dresdeners who had come to express their own frustration over the East German leadership's refusal to launch even token reforms.

In blind anger, some teenagers in front of the station threw cobblestones at the police who charged the crowd with flailing rubber truncheons. Water cannon later rumbled into action.

The demonstration was the first of its kind in East Germany since October 7 1977 when, on the 28th anniversary of its founding, young people

US seeks  
full EC  
membership  
of missile  
treaty

By Alan Friedman and Victor Mallet in London

MR DAN QUAYLE, the US vice president called yesterday for all members of the European Community to join the Missile Technology Control Regime (MTCR), an accord reached in 1987 by the seven leading industrialised nations to restrict missile proliferation in the developing world.

Mr Quayle's remarks follow high-level diplomatic protests by the US to Paris over a French proposal to transfer rocket launching technology to Brazil as part of a satellite-launching deal for Ariane-space, the French-dominated group of European aerospace companies.

The sale of this launching technology is prohibited under the MTCR of which France is a signatory.

Although the US lodged its first protest three months ago the dispute has intensified during bilateral talks in recent days. British and US officials claim that France has adopted a deliberately loose interpretation of the MTCR.

Western officials are particularly concerned about a three-nation project between Iraq, Egypt and Argentina, code-named Condor, whose planned range and payload, they believe, would threaten Middle East stability. Among other countries involved in ballistic missile projects which worry MTCR adherents are Pakistan, India, Israel and South Africa.

"The key loophole in the MTCR is the need for new MTCR adherents," Mr Dan Quayle, US Vice President, told the Financial Times. "We need to get as many nations as want to join the MTCR on board as soon as possible. Certainly, the EC members."

The US Administration is under pressure from Congress to impose sanctions on European companies which violate the MTCR.

The accord's adherents hope to meet later this year in an attempt to bring other countries into the regime, to clarify how the MTCR guidelines should be interpreted and to tighten restrictions on certain missile technology exports.

Mr Quayle warned: "If any firm having major contracts with the US Government engages in such co-operation in the future, they will face strong US Government actions." He said the best way of policing the missile regime

Continued on Page 20

Trump proposes to purchase  
American Airlines for \$7bn

By Anatole Kaletsky in New York

MR DONALD TRUMP, the flamboyant New York casino and property developer, yesterday offered to buy American Airlines for about \$7.1bn in what would be the highest deal in a round of US aviation company mergers.

Mr Trump said he would pay \$120 a share in cash for AMR Corporation, American's parent company and the biggest airline business in the US.

The possibility of a bid from Mr Trump had been rumoured for weeks on Wall Street, but many investors reacted sceptically to yesterday's announcement. Although the news caused an immediate 25 per cent surge in AMR's shares from \$88 to around \$104, the price then stabilised and remained well below the level of Mr Trump's bid.

Some analysts noted that the New York property developer had a long record of disclosing interests in potential takeover targets but not consummating a bid.

The high level of Mr Trump's bid also took analysts by surprise. The offer was at the upper end of Wall Street estimates of AMR's "private market value." Mr Trump's offer was equivalent to about 6.2 times AMR's estimated cash flow and 14 times its expected earnings for 1989. By comparison, the \$300 a share leveraged buyout recently agreed by UAL, the second-largest US airline, was worth about 6.8 times cash-flow and 15 times earnings. Thus Mr Trump's opening offer seemed to leave little headroom for the negotiation which would inevitably be required for a deal to succeed.

Mr Trump's takeover offer came in a letter to AMR which was disclosed by the target company. The letter gave no details of Mr Trump's financing and stated that the offer was conditional on the agreement of AMR's board.

AMR said its board would consider Mr Trump's proposal "in due course", but added that

there had been "no change in the policy and belief that the company and its shareholders would be best served by AMR remaining an independent company." The company reiterated its view that "excessive levels of debt in the airline industry are not in the public interest."

This comment pointed to one of the company's possible lines of defence against a leveraged takeover bid or buyout such as the ones seen recently at United Airlines and Northwest Airlines.

Mr Robert Crandall, the outspoken chairman of AMR, is widely respected in Washington as the airline industry's most experienced leader. He would undoubtedly try to use his political connections to protect his company against a leveraged bid.

Wall Street investment institutions were also said to have more respect for AMR's management than that of NWA or UAL.

If you are a private client stockbroker, are these the sort of worries going through your mind?

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- Am I getting the right strategic advice and investment recommendations for my clients?
- Am I confident of my firm's profitability and long-term future?
- Are private clients central to its philosophy?

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## MARKETS

STERLING	DOLLAR	STOCK INDICES
New York lunchtime: \$1.6125	New York lunchtime: DM1.8845	FT-SE 100: 2,281.5 (-30.5)
London: \$1.6100 (1.6045)	FF6.3835	FT Ordinary: 1,898.2 (-24)
PARIS (3.0225)	SPR1.0340	FT-A All Share: 1,156.08 (-1.4%)
FF10.2875 (10.2200)	Y142.35	FT-A long gilt yield: 9.75 (9.77)
SPR2.6850 (2.6100)	London: DM1.8855 (1.8775)	Index high coupon: 9.75 (9.77)
Y228.00 (228.25)	FFR6.3800 (6.3700)	New York lunchtime: DJ Ind. Av. 2,779.53 (+8.93)
£ index 91.8 (90.9)	SPR1.0360 (1.0270)	Tokyo close: Y141.06
GOLD	Y142.30 (142.05)	US LUNCHTIME RATES
New York Comex Dec: \$367.2 (\$371.5)	\$ index 89.8 (89.9)	Fed Funds 9.0%
London: \$365.5 (\$361.25)	Tokyo close: Y141.06	3-mo Treasury Bill: 8.02%
BREXIT 15-day Oct: \$18.65 (-0.25)	US LUNCHTIME RATES	Long Bond: 99%
		yield: 9.13%

MARKET REPORTS, CURRENCIES, Page 44; BONDS, Pages 26, 28; COMMODITIES, Page 38; EQUITIES, Pages 37 (LONDON), 43 (World)

## CONTENTS

## Australians query the motive behind some Labor decisions

Recent unexpected decisions by Australian Premier Bob Hawke (left) have aroused voters' suspicions. With an election in the offing, there are fears that his Labor government is shoring up its position with vested interests.

Europe	2,3	Agriculture	28
Companies	22	Arts-Reviews	14,15
America	5	World Guide	2
Companies	23	Commodities	36
Overseas	4	Crossword	44
Companies	24	Currencies	13
World Trade	6-10	Editorial Comment	44
Science	28-33	Euro-options	44
Companies	28-33	Financial Futures	44

## Paris: The time of year when Frenchmen go on strike

Washington Medical benefit proposals for US elderly collapse	5
Management Sony in Wales - pulling back from a quality disaster	12
Pressure on interest rates: UK Chancellor plays follow my leader	18
Editorial comments: Bundesbank cracks a whip: Labour's policy for industry	18
Politics Today: The political roots of economic failure	19
Lead Markets, currencies, Next, Guinness	20
Lex	20
Gold	26
International bonds	26
Int. Capital Markets	26
Letters	26
Law	26
Lombard	26
Management	26
Money Markets	26
Observer	26
Politics Today	26
Raw Materials	26
Stock Markets	26
Wall Street	26
London	26
Technology	26
Unit Trusts	26
Weather	26
World Index	26

## EUROPEAN NEWS

## Labour unrest spreads to biggest Soviet car plant

By Kevin Done, Motor Industry Correspondent, in Togliatti

LABOUR unrest in Soviet industry has spread to the country's biggest car plant in Togliatti, on the river Volga, where assembly line workers are demanding a 40 per cent pay increase to cope with mounting inflation, and are calling as well for improved working conditions.

A strike meeting called by 3,000 assembly line workers on September 20 failed to find support from the majority of the VAZ plant's 90,000-strong blue-collar workforce for a general strike, but the management has agreed to set up a special committee to consider the car workers' grievances.

The threat of unrest at one of the country's premier industrial sites is a graphic illustration of the militancy among the more privileged members of the Soviet workforce. The response of the management suggests the authorities are anxious to make concessions to meet their demands.

Mr Leonid Smekalin, deputy general director of the Volga Automobile Works (VAZ), one of the world's biggest car plants which produces the Lada car range, admitted that the supply of components from outside suppliers had deteriorated.

VAZ is also considering offering cars at discounted prices to its workforce to alleviate pay demands.

Mr Smekalin said a "special social programme" would be worked out to meet some of the workforce's demands. He admitted that the working environment in the plant had deteriorated, with cramped conditions created by the introduction of automated equipment in confined spaces.

The workers are demanding:

- Improved working conditions at the car plant;
- Action to clean up the environment in Togliatti, which is being damaged by chemicals plants in the city;
- Pay increases of up to 40 per cent;
- Extended paid holidays.

Their demands are in many ways similar to those made by Soviet coal miners who went on strike in July and August - the first mass stoppage in recent Soviet history.

The VAZ car group, which has a workforce of more than 200,000 in Togliatti and at numerous associated component plants around the Soviet Union, has been a showcase of Soviet industry and in 1985 introduced the country's first experiment in self-financing.

VAZ keeps 98 per cent of its domestic profits and 40 per cent of its foreign currency earnings.

"We have what we earn," said Mr Smekalin. "Wages increases had to be balanced against the need for increased investment." "Without investment in production, we cannot improve output and the success of our products. We will see what our profit and our spending will be, so we can match them and see what we can do."

Mr Smekalin said the plant was hoping that wage demands would be moderated by government plans to impose a freeze on prices charged by co-operative enterprises.

He said VAZ was aiming to produce 730,000 vehicles (cars and four-wheel-drive leisure/utility vehicles) this year, of which 43 per cent would be exported, around half to western markets.

The VAZ plant is also breaking new ground in local trade union democracy. Next week for the first time direct elections to the 24-man trade union committee at the plant will take place with voting by the entire 120,000-strong VAZ blue and white collar workforce.

## Gorbachev fears Berliners will like him too much

PRESIDENT Mikhail Gorbachev's decision to attend the 40th anniversary celebrations in East Germany looks like being an embarrassment for the Soviet leader, as fears grow in Moscow that anti-Communist demonstrators will sing his praises in the streets, Quentin Peel reports from Moscow.

"If Mikhail Gorbachev had his way, he probably would not leave his hotel room," according to one senior Soviet official.

It is still apparently not known in Moscow just what the arrangements will be for the celebrations, and whether Mr Gorbachev will be asked to make a speech after that of Mr Erich Honecker, the East German leader.

If he does, then no one expects Mr Gorbachev to do more than express routine solidarity for the conservative East German leadership - stopping short of anything too effusive, but equally not hinting at any criticism at the lack of reforms in the country.

The Soviet leader's well-known habit of mixing with crowds in the streets, as he did with huge success in the West German capital, Bonn, seems unlikely to be repeated, unless East Berlin can ensure a carefully selected crowd.

The planned torchlit demonstration by East German youth scheduled for tonight is also apparently in some doubt, for fears that the crowd will chant for "Gorby".

What Soviet officials are nervous about is any suggestion of a parallel with the events in Peking's Tiananmen Square, when hundreds of thousands of Chinese students demonstrated in favour of Mr Gorbachev - and against their own Communist Party leadership.

Mr Honecker was given a substantial show in Peking, the Soviet Communist Party's newspaper, yesterday, to warn his Western neighbours that "normal, good neighbourly relations between the GDR and the FRG can be formed only when the euphoria about a 'united Germany' is put aside."

Yet the Soviet media have been divided - as has the Soviet Foreign Ministry, according to well-informed

sources - on how to react to the exodus from East Germany. Occasional demonstrations of West German "provocation" have been balanced by almost open criticism of East Berlin in the outspoken weekly, *Moscow News*.

Even the conservative Soviet newspaper, *Sovetskaya Rossiya*, allowed a hint of criticism, in noting the obedient tone of the East German press.

The fact that Mr Yegor Ligachev, the most conservative figure in the Soviet Politburo, was despatched to East Berlin at the height of the crisis is seen as no great compliment to Mr Honecker's leadership, for few in the Soviet Union believe that he reflects the real views of Mr Gorbachev.

## The snare tightens on E German leaders

David Marsh looks at the embattled regime on the eve of its anniversary celebrations

THE German Democratic Republic, "a socialist state of workers and farmers as its amended 1974 constitution says it is, offers the outside world a peculiar mix of hallmarks: pathos, defensiveness and authoritarianism."

As the flags and naively self-congratulatory slogans are hoisted up in East Berlin for this weekend's 40th anniversary celebrations, all these characteristics are likely to be on plentiful, and perhaps brutal, display.

Ambiguities and contradictions about East Germany's place in Europe, and the attitude towards it of its own citizens and its neighbours in East and West, have been lingering beneath the surface for four decades. Now, as the tide of escape from the East takes on proportions last seen in the 1950s, the emotions and tensions behind German division are bursting through to capture the world's attention.

The elderly Communist leadership is caught in a tightening snare. Encirclement comes from reforms in neighbouring East bloc countries, rising discontent among East German citizens, and the ever-potent attractions of a bolt-hole nest door in West Germany which apparently is everything which East Germany is not: rich, democratic and successful.

East Berlin's leaders may be starting to see repression as the only means to hold on to power in a country which manifestly wants a change of rule. As Prof Jens Reich, a spokesman for the New Reform opposition movement in East Berlin, puts it: "I am a bit worried. The situation is running into a state where reason will no longer prevail."

East Germany's barriers on Tuesday of the refugee traffic path to Czechoslovakia, and hints of "counter-measures" against West German "provocation" and "imperialism" indicate that a further clamp-down may be on the way.

One principal victim could be Mr Erich Honecker, the 77-



Mr Honecker is seen in a way similar to that of the Bonn government, which desperately wants to stabilise East Germany's second city.

year-old state and party leader. In frail health after a long absence for a gall bladder operation, he may receive a strong hint during Mr Mikhail Gorbachev's visit to East Berlin, starting today, that Moscow would prefer soon to see a new face. There is, however, no obvious successor, and - just as in the case of the power transition in Moscow after the death of Mr Leonid Brezhnev - some time may elapse before a genuine reformist candidate has a chance of taking over.

Over the past few years, Mr Honecker has attempted to maintain a precarious balance. He has tried to build stronger links with West Germany, while seeking to hold down domestic dissatisfaction about East Germany's obvious defects.

Now, it is becoming almost impossible to maintain equilibrium. The main achievements of the East German state - its extensive welfare and social security system, and its economic growth within the Communist bloc - are clearly threatened by the dislocation caused by the latest exodus. One simple point is that too

many doctors are fleeing to the West.

The paradox is that the two Germanys formed in 1949 as fission products of Hitler's war simultaneously stabilised and threatened the European power balance.

As unrest in East Germany grows, East Berlin's leader is clinging to the belief that reforms in the direction of capitalism and democracy would simply expose further East Germany's identity crisis.

The continued existence of East Germany, at least for the foreseeable future, seems necessary for the stability of Europe. The somewhat chilling conclusion may be that East Berlin has stronger cards in its hand in its options for dealing with its own population than considerations of morality alone would suggest.

Mr Gorbachev's visit may bring a test of the inconsistencies always inherent in his reform policies. He will have to steer between the Scylla of propounding a regime which would not want to countenance Germany's shift to not just East Germany, but the Charybdis of destabilising a state which is a pivot in the postwar order.

The Soviet leader's dilemma

is in a way similar to that of the Bonn government, which desperately wants to stabilise East Germany's second city.

He talks of keeping East Germany alive as a structure grouping the old states of Mecklenburg, Brandenburg and Saxony, seeking strength in Germany's 1,000 years of federal traditions.

The problem, however, with Prof Reich's vision is East Germany's fundamental lack of identity. The gap will be illustrated by the organised tide of self-serving banner-waving being served up in East Berlin over the weekend.

More important still, East Germany will now have to cope with the damaging effects of the Czech border closure.

Mr Honecker decided to liberalise travel arrangements from 1988-89 onwards in a deliberate attempt to lower simmering dissatisfaction. Sealing the safety valve now increases the risk that the temperature will rise in the pressure cooker.

Even before the frontier was closed, the demonstration on Monday night in favour of reforms in Leipzig, East Germany's second city, when between 10,000 and 25,000 people took to the streets - was the largest since the workers' uprisings in 1953 which were put down by Russian tanks.

Significantly, this year, East German workers have shown no great signs of wanting to join the fractured opposition so far grouping principally young people and intellectuals. But the pressures bubbling up in East Germany in some ways look like those which caused the 1953 revolt, and which sparked the 1961 building of the Berlin Wall.

The difficulty, and the danger, for the East German leadership is that, surrounded by countries which have renounced Stalinism, it can no longer build any more walls. As for the option of bringing in the tanks, it would extinguish not only any remaining vestiges of East German legitimacy, but also the chances of lasting detente across the whole of Europe.

## Sicilian magistrates at odds in battle against the Mafia

By John Wyles in Rome

ITALIANS have received this week more than their normal dosage of confusion and consternation out of Sicily, where the reputation and effectiveness of the state has clearly lost ground in the eternal battle against the Mafia.

This doleful message has been driven home by a sequence of extraordinary events which have all served to sharpen political divisions and personal rivalries among the forces of order, while the forces of disorder continue to murder and corrupt with impunity.

Inevitably, the public spotlight is again on Palermo, whose magistrates have been at each other's throats for more than a year as a result of complicated manoeuvres seemingly intended to isolate and eventually remove, by one means or another, Mr Giovanni Falcone, Sicily's most celebrated anti-Mafia magistrate.

The campaign was carried forward this spring by a series of anonymous letters to the Italian president, prime minister and various newspaper editors.

Mr Falcone was done no favours by whoever was responsible for leaking the name of his colleague in Palermo, Mr Alberto Di Pisa, as the presumed author before the case, leading fingerprints found on one of the letters, had been properly assembled.

Mr Di Pisa sought judgment by his peers on the Consiglio Superiore della Magistratura (CSM), the Italian magistracy's self-governing body which, like almost any gathering of more than two people in Italy, fractures along party lines. While protesting his innocence Mr Di Pisa added substance to some of the charges against Mr Falcone and his collaborators which were made in the letters.

Having done so, even if innocent, it was widely expected that Mr Di Pisa would be transferred out of Palermo, since working relationships with his colleagues there could never again be the same. But the centre-right majority on the CSM's investigating committee has postponed any such decision, preferring instead to consider

moving Mr Giuseppe Ayala, one of Mr Falcone's closest colleagues, whose greatest mistake was to seek to defend himself against the CSM against Mr Di Pisa's allegations.

No one can be sure what it all means, but Mr Gianfranco Piazzesi, the veteran columnist of *Corriere della Sera*, suggested yesterday that the parties were setting magistrate against magistrate in a competition for control of Mafia investigations. Such control of the magistrates would afford protection for political friends with dubious connections and possible damage to the political enemy.

Mr Salvo Lima, the Euro-MP from Palermo who has frequently been accused of dubious friendships easily sidestepped damnation on Wednesday. Then, a mafioso collaborating with the police named the Christian Democrat as the man who ordered the murder in 1982 of General Alberto Dalla Chiesa and his young wife, as well as two other political assassinations.

Judge Falcone immediately charged the man with calumny and conspiring with persons unknown to mislead the authorities. But the effect of the manoeuvre is two-fold: it tends to discredit the credibility of these so-called "pentiti" on whom the magistrates depend heavily for convictions of mafiosi while affording the odd sight of Judge Falcone defending the good name of Mr Lima.

Another oddity in a very odd week was the revelations by the Communist newspaper, *L'Unità*, that the president of the Sicilian city of Catania had been sitting for nearly a year on a police report recommending an investigation into and restrictions on the movements of three top businessmen suspected of dealing with the Mafia.

Finally, two of the four Mafia killings in Sicily on July and August holidays in which the mayor or president of the region's anti-Mafia committee, the Christian Democrat politician resigned his position on learning of their deaths.

## The time of year when Frenchmen go on strike

By William Dawkins in Paris

FOREIGNERS might be forgiven for wondering why half of France seems to be on strike these days. There are several answers. They underline why it is that this civilised but peculiar country will always be just a bit harder for managers to manage in, or politicians to govern, than its European neighbours.

The bitter, month-long, wage dispute at Peugeot has grabbed most of the attention (workers yesterday continued their occupation of factories in north-eastern France, in defiance of a court eviction order) but other, minor industrial disputes are widely scattered throughout the country.

Others, differently, are likely to have made some form of industrial protest. These include prison officers (now leading towards a solution), tax officials, suppliers of parts for the aircraft industry, the Parisian suburban railway, on and off, a scattering of Renault workers, even cleaners at the Pompidou exhibition centre.

The puzzle is that all this is happening at a time when France is basking in exceptional prosperity. Economic growth is climbing and inflation is well under control, the only small cracks in the edifice being a stubbornly high trade deficit and a small upward blip in the jobless rate recently.

The government is unusually stable, enjoying the support of just under or just over half of the electorate, depending on which poll you believe. France looked as if it was outgrowing its traditional reputation as a centre of drama and conflict that is, until this wave of strikes.

No need to panic, reply veteran France watchers. Part of the answer is that curious part of French culture, the *rentrée*. This takes place in two stages, starting with the mass return to work in the autumn after a July and August holiday in which the country, more or less grinds to a halt. This is usually followed by a *rentrée chaude* when, once back at work, a disgruntled populace remembers old grievances with new force and accordingly protests.

It happens every year. Sooner or later, everything will get back to normal, the argument goes.

Yet there is another school of thought, that there are elements of a new and revealing *rentrée chaude*.

Just as the country's economy is rattling along in its sixth consecutive year of improved growth, so its big industrial companies are now well into their recovery. The common theme among the Peugeot strikers is that their company's health is so strong that they no longer need to make sacrifices to ensure its survival. They want a bigger share of the new prosperity.

Mr Rocard and Mr Calvet reckon Peugeot needs to invest hard to face its new crisis, the coming wave of Japanese competition likely to be released by the post-1992 opening of European frontiers.

While that kind of debate is not exactly new, this wave of strikes has forced it to a head, at least at Peugeot, and by implication for the rest. As one foreign diplomat remarks dryly: "It just shows that even in good times, this can be an impossible country."

## Finland releases revised current account figures

By Enrique Tessier in Helsinki

AFTER almost two weeks of confusion caused by the National Board of Customs' contradictory and confusing trade figures, the Ministry for Finance published its latest figures on the trade and current account deficits for 1989.

According to the newest figures, the trade deficit for the year will reach Fm330 (870.4m) as opposed to Fm300m, which was originally forecast by the Ministry for Finance.

Likewise, the current account deficit will rise from an estimated Fm17bn to Fm19bn, the report said, from last year's figure of Fm15.5bn. Confusing trade statistics released by the NBC two weeks ago for the January/August period prompted alarm at the Helsinki Stock Exchange on Wednesday, September 27, just a day before Mr Jermu Laine, the director-general of the NBC, could not confirm or refute that they were probably an "additional Fm2bn" in unaccounted import declarations.

yet to be written in the January/August trade books.

On September 27, the Unifac all-share index took a nose-dive, dropping 22.4 points to 874.7 in volume of Fm75m. Three-month Helibor interest rates rose from 12.84 per cent on Sept 11 to 13.68 per cent on Sept 23 and today stand at 13.85 per cent. It only became clear to the NBC last week that there were no such 35,000 unaccounted import declarations, stating that the "whole matter was a human error."

While Mr Laine did not want to point the finger at anyone, Mr Eero Ruuska, NBC department head for foreign trade, was more open. "We are understaffed and have yet to fully learn how to use this new computer system that we acquired at the beginning of summer."

The trade deficit figure that the NBC reported in their survey for the January/August period was Fm2,250m, already Fm1.4bn higher than originally expected.

## Hungarian reformer urges steps towards neutrality

By Ian Davidson in Paris

A PROMINENT member of the Hungarian leadership has openly urged that his country should start to prepare for neutrality in 10 or 15 years.

Mr Matyas Szuros, President of the Hungarian parliament, and one of the leading reformers in the Hungarian political establishment, told the French newspaper *Le Monde*, that Hungary's neutrality was not immediately on the agenda, but that it was an aspiration of the Hungarian people.

Mr Szuros evidently has no fear of a repeat performance of the traumatic events of 1956: it was the announcement in that year, by Hungarian party leader Imre Nagy, that Hungary was leaving the Warsaw Pact and going neutral, that triggered the Soviet invasion.

"We can see that our society is ready to follow the Austrian or Finnish model," said Mr Szuros. "If this objective is to be accomplished in the next 10-15 years, we must already start the preparations, on the

basis of mutual confidence with the Soviet Union."

An early priority on the agenda was the modernisation of the Warsaw Pact, he said. "We should like to see an organisation which is more political than military. Gradually, the two blocs must be suppressed, but Hungary's neutrality could become a reality before the suppression of the two blocs."

Negotiations on the subject had not taken place with the Soviet Union, he said. "But if one observes different statements on this subject, one can see that... ideas are gradually appearing. But it is very important to take account of reality; we do not want to state problems for the Soviet Union."

"The stakes are immense. If the Hungarian undertaking succeeds, this time, Hungary will be democratic and free at the dawn of the 21st century," he said.

Party Congress, Page 3

## UK group to look at Moscow human rights

By Our Foreign Staff

A BRITISH delegation including MPs and other "outside experts" is to visit the Soviet Union next week to investigate the human rights situation, it was announced in London yesterday.

The group, led by Mr David Raftery, Assistant Under Secretary at the Foreign and Commonwealth Office, was invited last January, by Mr Anatoly Adamishin, a Soviet Deputy Foreign Minister, at a meeting of the Anglo-Soviet working group on human rights established in 1982. It will visit the Ukraine and Moldova as well as Moscow.

Officials said the information gathered would help to decide whether Britain would take part in a planned international human rights conference in Moscow in 1991, although the decision would only be taken closer to the date.

Besides FCO officials and interpreters the group includes Sir Bernard Braine MP (Con, Cusick Point), Mr Peter Archer QC MP (Lab, Warrley West), Mr Louis Blom-Cooper (chairman of the Press Council), the Rev Michael Bourdeaux (Principal of Keble College and specialist on religion in communist countries), Mr Peter Radway (a leading British socialist), Mr Brian Wroble and Mr Edward Mortimer (assistant foreign editor of the *Financial Times*).

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## Greece relaxes rules on banks' confidentiality

By Kerin Hope in Athens

THE Greek Parliament yesterday passed legislation to allow rules on the confidentiality of bank deposits to be overturned during a criminal investigation.

The measure is part of an effort to tighten banking controls in Greece after last year's scandal at the Bank of Crete, in which its owner, Mr George Koskotas, is accused of embezzling some \$200m (£125m) from its holdings, allegedly with the complicity of the former Socialist government.

Deputies from all parties voted in favour of amending a 19-year-old law on bank secrecy dating from the days of the military junta. Banks will now be required to reveal details of deposits upon request by the Bank of Greece - the country's central bank - currency control and fiscal investigators, the judiciary, or a parliamentary commissioner.

In the past, banks routinely refused official requests to lift confidentiality, which meant

that a special decision by the Supreme Court was necessary to bypass the secrecy law.

At the same time, the house revised an earlier amendment of the law, which was introduced in September 1988 by the former Deputy Prime Minister, Mr Agamemnon Koutsogiorgas, with the aim of protecting Mr Koskotas from a Bank of Greece investigation.

Mr Koskotas, who is in prison in the US awaiting extradition to Greece, is accused of using Bank of Crete funds to set up a publishing group which issued five weekly magazines and two daily newspapers, and also ran a radio station. It was a group of rival publishers who first called for an investigation into his financial affairs.

Mr Koutsogiorgas, a veteran politician and former right-hand man of the Socialist ex-premier, Mr Andreas Papandreu, is charged with receiving a \$2m bribe in return for arranging the banking law amendment.

## Dutch bastion falls to commercial TV

By Laura Raun in Amsterdam

AFTER 30 years of controversy, commercial television has finally broken through the dikes around the Netherlands, the last bastion of purely public broadcasting.

Veronique, a new commercial channel, began beaming its signal this week, as the caretaker Dutch government appeared resigned to such ventures in line with the European Community's "television without frontiers" directive approved on Tuesday.

Among Veronique's financial backers is Philips, the Dutch electronics company, which is banking heavily on high-definition TV.

On October 28, broadcasts will begin from TV10, a rival headed by Mr Joop van den Ende, who wants to do for Dutch television what Silvio Berlusconi did for Italian TV. Mr van den Ende, a Dutch TV impresario who has a stable of stars, is still lining up financing. Other commercial broadcasters, including inter-

national media barons, may follow.

"It's easier to have sex museums in The Netherlands than commercial broadcasting," snorts Mr Andries Overste, media director of TV10.

But he contends that now it is unavoidable because broadcasting technology and EC law promises barrier-free broadcasting.

The Dutch broadcasting system is perhaps the most complex and arcane in the world, designed to foster the peculiar "pillarisation" of society. Eight broadcasting organisations, which provide programming for three public channels, reflect religious and political "pillars" - Protestant, Roman Catholic, liberal or conservative, for example.

Viewers choose the "broadcasting organisation" that reflects their views and pay membership fees to help finance them. The Dutch, and particularly the Christian Dem-

ocrat Dutch, worry deeply that commercial broadcasting would destroy this uniquely "pluralistic" system.

No channel may produce programming solely financed by advertising revenue. A modest amount of advertising is allowed - 5 per cent of total broadcast time compared to a European average of 15-20 per cent. But the revenues of £1.450m (£130m) are collected centrally and shared out among the broadcasting organisations.

Veronique and TV10 have set up corporate headquarters, transmission operations and production facilities in Luxembourg to circumvent the Dutch ban. Their signals are beamed up to the Astra satellite and bounced back down to the Netherlands, where they are fed to about 80 per cent of Dutch households via cable TV.

Veronique has been officially recognised as a foreign by the Dutch authorities but TV10 is not. Mr Overste, however, is

confident that TV10 will get the stamp of approval.

Both are offering similar fare - lots of entertainment, a good dose of sports and some news. Both are also aiming for the hefty £150m or so of advertising money that can't find a home in Dutch TV now because of limited space.

Only 9 per cent of total advertising revenue is spent on TV and 28 per cent on radio. Spending on TV is expected to climb nearer the UK's 38 per cent or Italy's 45 per cent.

Veronique could break even within a year given the financial backing and commitment for £150m in advertising, according to Mr Lex Harding, general director.

Radio-Televisie Luxembourg, the Luxembourg investment bank, Credit Lyonnais, NBS and Philips have put up about £150m.

Mr van den Ende is playing his cards close to the chest but wants more foreign investment.

## EUROPEAN NEWS

## Hungarian party faithful search for the recipe for survival

Judy Dempsey reports on splits in the Hungarian Socialist Workers' Party as it meets for the last congress before free elections next year

**M**UCH to the amusement of the local inhabitants, Hungary's ruling Socialist Workers' Party (HSWP) recently turned one of its party schools in Budapest into an election centre. There, instead of delivering weighty lectures on Marxist economic theory, the remaining party faithful turned election campaigners are distributing home-made cakes to anyone curious enough to sample the latest party recipe for survival.

Survival will be the main theme when the party meets today for what is likely to be the last, united congress of Hungarian communists before the first, free parliamentary elections for over 40 years take place early next year. For unlike Poland, the party is deeply and openly divided between fundamentalists and reformers, a division which threatens a formal split in the party.

This may seem surprising to outsiders, given the kind of economic reforms the HSWP has introduced over the past 20 years and the way in which it projected a sophisticated public image to the international community. However, many of those reforms were half-baked. While privately-run small businesses were encouraged, the party, particularly through its union and heavy industry lobby, continued to prop up unprofitable and giant state-owned enterprises.

Subsidies for supporting these accounted for as much as 20 per cent of gross domestic product in 1988.

In addition, the party is identified by the public with spending the lion's share of the international Monetary Fund, the World Bank and other financial institutions, which today means that the country is saddled with \$17.8bn of debt, the highest per capita in Eastern Europe. But above all, the party is accused of wasting the nation's resources and talents.

Just over a year ago, during the party's National Conference, the HSWP could place all the blame for these ills on the late Mr Janos Kadar. He was a benevolent despot, who, since the tragic uprising of 1956, could maintain consensus and stability largely because the society had been so traumatised by 1956. But now, as the party prepares for the congress, there is nobody left to blame except themselves. "We are a sinking ship. Nobody will bail us out," said one senior party official who is thinking of resigning from the party altogether.

One of the ways to keep the ship afloat would be for the party to accept a radical economic and political programme drawn up by the Reform Circles. This is a 1,000-strong movement of liberal party members which is backed by Mr Imre Pozsgay, the bete-noire of the party conservatives.

## Leaders call for 'cleansing' of party

By John Lloyd in Budapest

**HUNGARY'S** reformist Communist leaders yesterday called for a "cleansing of the party" and its commitment to pluralism, the market and national independence.

They were speaking separately to Hungarian newspapers in advance of the Hungarian Socialist Workers' Party congress beginning today and expected to be historic, for Hungary and for Europe, East and West.

Among the decisions before it will be the adoption of a new programme which would see the party fully endorse private capital, a "steadily uniting Europe", a basis of fundamental human rights and a democratic rather than Stalinist socialism.

In earlier talks with opposition groups, Mr Imre Pozsgay, one of the four-man leadership group and the best known of the leading reformers, has got agreement from some of the opposition to hold a presidential election in November and parliamentary elections in March.

Both the reformist and the hard line wings of the party — the latter believing in gradual, party-controlled reforms — have been hard at work trying to ensure that the congress delegates line up behind them. Already the hard-line wing is calling foul — with Mr Robert Robanansky, a former ambassador to China and the public face of the hard line, saying the reformists had "rigged" the voting for delegates to produce a majority which did not reflect true membership views.

Mr Miklos Nemeth, the Prime Minister, said he wanted a "radical renewal of the party to stop the continuous loss of prestige. If the party must split to get a renewal, then it must." He suggested a change of name to the "Socialist Party of Hungary" or the "Democratic Union of Hungarian Socialists" — but added that the party must first evolve "a new meaning, a new organisation and a new leadership" before the

tives and a member of the four-man party presidium, and Mr Reszo Nyers, the party's respected chairman.

The Reform Circles, for example, want the party to commit itself to a privatisation programme, aimed at attracting foreign investment and making the country's industry more competitive. They also want the party to withdraw from the enterprises, if possible, before the elections. This would be tantamount to political suicide since the party's ideological and organisational base is strongest on the factory floor and weakest in residential areas where the opposition parties are fast building up support. But Mr Pozsgay believes that this is the only way for the party to gain some credibility from the electorate.

In addition, the Reform Circles want the Workers' Guard, the armed wing of the party, to be disbanded. So far, it has only been agreed that it be reduced in size and brought under the control of the Ministry of Defence. Also, they want the party to give a detailed account to parliament about its vast property holdings, which could then pave the way for a legally monitored transfer of these holdings to the State.

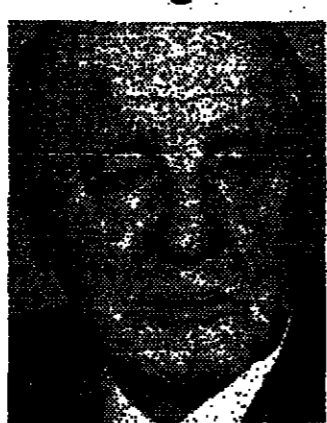
Such an issue has already led to bitter infighting in the party. Once the party sheds its privileges, it loses its power of patronage and, ultimately, its influence.

However, it is far from certain that the Congress will go along with these demands. Indications suggest that the party delegates are more inclined towards the conservative which are led by Mr Karoly Grosz, the party's former leader, Mr Janos Berecs, the former guardian of ideology and Mr Gyorgi Fejtő.

In the past, the congress would have found a compromise in order to preserve the semblance of unity. But Mr Nyers is now adamant that the reforms, as well as the future role of the party in Hungarian society, should not be compromised or sacrificed by a consensus and unity which would accommodate the conservatives and maintain the status quo. In fact, neither he nor Mr Pozsgay wants a consensus. And both have hinted that they might break away with their supporters from the party altogether, which would leave the fundamentalist rump isolated.

A formal split, however, would upset Mr Pozsgay's bold and ambitious plans for the new parliament. He wants the party to retain the presidency — to be held by Mr Pozsgay himself — while the new government could be led possibly by Mr János Antall, the political astute leader of the Hungarian Democratic Forum (HDF), the largest of the opposition parties.

In Mr Pozsgay's view, this share-out of posts could facil-



From left: the late Janos Kadar, reformers Imre Pozsgay and Reszo Nyers, and arch conservative Karoly Grosz

tate a peaceful transition from the one-party state to a multi-party system.

But if the party were to break up, the fundamentalist wing could put up their own candidate, which in turn could split the party vote, and even lead the opposition to contest the presidential election. In such circumstances, the communists could lose everything. And that is what Mr Pozsgay and Mr Nyers want to prevent. Above all, in the transition to the multi-party system, they wish to avoid a power vacuum emerging.

A vacuum already exists. It is being filled quickly by the new political parties, who are

not only impatient for power, but in several ways represent some of Hungary's less savoury inter-war traditions.

One of these parties is the Hungarian Democratic Forum (HDF), a highly efficient organisation. It boasts over 20,000 paid-up members, a nationwide network of 350 branches, a newspaper and, most significant of all, victory in four parliamentary by-elections. The HDF, whose leading light, Mr Antall, is now talked about as if he is already Prime Minister, contains three strands: a clerical wing, a liberal wing and a populist wing, of which the latter is unashamedly tinged with nationalism.

More importantly, the real power base of the HDF is concentrated, not in Budapest, but in the country's other 19 counties. There, the sons and daughters of first generation doctors and school teachers, lawyers and Protestant/Calvinist clergymen, have flocked to the HDF. In short, it has the makings of a petty-bourgeois party.

For many Hungarians, that is one of its attractions. Precisely because its roots lie in the provinces, the language used by the HDF is immediately accessible to the population. Through the voices of some of its writers, including Mr Istvan Csorri and Mr Istvan

Csurka, it extols the virtue of the Hungarian nation and calls for the protection of the Hungarian ethnic minority in neighbouring Romania and Czechoslovakia. It mocks the arm-chair, socialist intellectuals in Budapest, particularly the small Association of Free Democrats (AFD) who formed the nucleus of the dissident movement in the 1970s. It taps the inherent anxieties of Hungarians who, unlike the Poles, have a deep, almost pathological obsession about instability and a pessimistic view of the future.

These sentiments, including their economic programme which is based on a mixed

economy, de-nationalisation, and strict controls on how party property should be sold, have won them vast support since they were founded 18 months ago in the village of Lakitelek, in central Hungary. But however much the HDF stress their liberal values and their determination to look westwards, they have unwittingly resuscitated some of Hungary's inter-war political experiences.

These traditions lie in the peculiarly Hungarian view of the world which has been historically torn between the Western liberal traditions and the statist/authoritarian traditions of much of Eastern Europe and Russia. This cultural and political bifurcation was particularly evident during the 1920s and 1930s.

As the liberal, and largely Jewish, intelligentsia in Budapest, often referred to as the "urbanists", continued to look to the West as a model for strengthening Hungary's extremely weak political institutions, populists in the provinces, especially in eastern Hungary, placed greater hope on the peasantry and emerging petty bourgeoisie for modernising Hungary.

Half a century later, and in radically transformed circumstances, the populists have once again emerged from the provinces and are now finding

their voice in the HDF. They vehemently deny that they are anti-European and anti-semitic, a trait which is never far from the surface in Hungary. Nevertheless, they loathe the AFD.

Nobody would deny that the AFD, as much as the HDF and the other political groupings, want a share of the power. But it is the way in which power is being sought which persuaded FIDESZ, the dynamic youth movement, and the AFD, not to sign the agreement reached between Mr Pozsgay and Opposition Round Table. They sensed that the HDF had made a deal with the HSWP, so that in return for accepting the party's proposals for electing the president, the HDF could be guaranteed the post of Prime Minister in the next parliament.

The HDF deny this, but they repeatedly stress that the transition must be peaceful and that they see few problems in working with the communists in the next parliament. At the same time, they seem to fear that the more fundamentalist wing of the HSWP will resort to violence.

Maybe so. But this week, nothing is certain. Few Hungarians are sure how hard the party will fight in an attempt not only to limit the damage but to survive and pave the way for ceding power to Hungary's new politicians.

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## OVERSEAS NEWS

# Miti raps Japan's Finance Ministry ponders curb on land loans

## car makers for expansion plans

By Ian Rodger in Tokyo

JAPAN'S Ministry of International Trade and Industry (MITI) is stepping up pressure on the country's powerful motor industry to moderate its current robust domestic capacity expansion plans.

The ministry fears that the expansions, which could add capacity to make 700,000 more cars per year in the next two years, will lead to fresh trade wars with other countries, especially if a slump in the home market drives the companies to boost exports.

Tension in Japanese trade relations with the US have been building in recent months and MITI is looking desperately for ways to reduce Japan's huge trade surplus with that country. Vehicle and motor components account for more than half of Japan's total exports to the US.

Yesterday, Hikaru Matsunaga, the MITI minister, told officials of the Japan Automobile Manufacturers Association to put his personal weight behind a warning about overinvestment. So far, the motor companies, as often in the past, have shown little inclination to follow MITI's guidance. In this case, they claim that the current boom in car sales in Japan is likely to be a long-term phenomenon and so additional capacity will be needed to meet rising demand.

They point out that the elimination of luxury taxes on cars last April has cut the cost of a medium-sized car by about a tenth. Also, the government's economic policy is likely to emphasise the stimulation of domestic demand for the foreseeable future. And, compared to other industrialised countries, the per capita ownership of cars in Japan is still relatively low.

In 1986, there was one vehicle in Japan for every 4.2 people, compared with one for every 1.7 people in the US, one per 2.8 residents of the UK and one for every 2.2 West Germans.

Yesterday, they parried Mr Matsunaga's request by suggesting that the Government give tax incentives to imports (something the Government has already decided to do) and by expressing opposition to the reintroduction of luxury taxes on cars. Opposition parties in the Diet (national parliament) are demanding the restoration of the tax and the abolition of a more general consumption tax introduced in April.

The industry's capital spending in the current fiscal year to March 1990, which includes modernisation projects as well as new capacity, is expected to rise 16.9 per cent to ¥1,045bn (\$4.6bn).

Among the main projects, Mazda Motor is building a factory with capacity of 240,000 vehicles, which is to open in late 1991. Daihatsu Motor opened a new plant in January and is now building another with a planned annual capacity of 120,000 vehicles. Completion of Honda Motor's Tochigi plant, which is to produce 10,000 sports cars a year, is expected next year. Toyota Motor is building a plant to produce 180,000 of its new Lexus luxury cars per year. It is to open next spring. Nissan Motor plans to expand annual production capacity at its Kyushu plant by 1992 to 600,000 vehicles annually, from 350,000 a year.

The industry produced 12.8m vehicles last year, 47 per cent of which were exported.

By Stefan Wagstyl in Tokyo

THE Japanese authorities are increasing monitoring of bank lending to real estate companies following a surge in prices in the area around Osaka, Japan's second largest city.

The Ministry of Finance fears increases in prices in Osaka, and to a lesser extent in some other provincial cities, could be as dramatic as the steep rises which hit Tokyo two years ago.

The ministry is summoning selected banks to special hearings to give details of their real estate loans. The banks have responded by saying that they have been observing guidelines laid down two years ago when the ministry sought to curb the Tokyo price increases.

The ministry announced its intentions this week following the publication on Monday of a report by the National Land Agency, a government body, showing that prices in Osaka soared 37.3 per cent in the year to the beginning of July, following a 26.9 per cent rise in 1988. Prices in the nearby historic cities of Kyoto and Nara rose by similar amounts.

The national rate of increase fell from 7.4 per cent to 6.8 per cent but this was almost entirely due to a fall in prices in Tokyo and a slow-down in increases in the surrounding area, where prices soared the



Ryutaro Hashimoto, the Finance Minister, pledged appropriate guidance

previous two years. In Tokyo city prices fell 4.2 per cent. In the wider Tokyo area they rose by just 2.7 per cent after a 24.1 per cent increase in 1988.

The land agency warned that increased price monitoring was

needed in areas where prices were soaring. Mr Ryutaro Hashimoto, the Finance Minister, pledged that his ministry would give the appropriate guidance to financial institutions.

A separate report from the Bank of Japan revealed that loans by banks for land purchases rose 13.2 per cent in the year to the beginning of July. Regional banks were particularly active, with an 18.6 per

cent rise in lending.

The Federation of Bankers Associations of Japan responded by saying the rates of increase were well below the record rise of 32.7 per cent in the year to March 1987, which prompted the ministry's initial moves to curb lending. The federation also said banks were only responsible for 54.5 per cent of total real estate lending. The rest of the funds came from non-bank companies - including leasing and consumer finance companies - whose activities are monitored much less strictly by the Finance Ministry because they fall outside the scope of banking regulations.

However, the ministry believes that these figures may underestimate the true level of loans for real estate purchases, since the purpose of a loan can be disguised by routing funds through a dummy company purporting to be engaged in a completely separate activity.

Real estate brokers say provincial prices have merely been catching up with Tokyo levels and rates of increase are slowing. Mr Hirokazu Nihel, a real estate analyst at Daiwa Securities, yesterday forecast prices would now rise modestly at 5 per cent to 10 per cent a year. "That's the general view in the market."

## NTT shareholders protest against break-up plan

By Stefan Wagstyl

ANGRY shareholders of Nippon Telegraph & Telephone, Japan's largest company, yesterday demanded a government office with plans to force the group to cut charges.

The plan, which is at an early stage of consideration, was seen by some investors as a further attempt by the Ministry of Posts and Telecommu-

nications to increase control over NTT. The price cuts would reduce NTT's revenues and profits and could lead to further falls in the already depressed share price.

The plan is a detailed suggestion made in a report presented earlier this week by the Telecommunications Council, an advisory body, to the ministry. The report's main conclusion was to propose that NTT

should be broken up, possibly into one company for long-distance calls and 11 separate regional companies.

Details of the suggested price cut emerged only yesterday in the fine print. The report suggests that NTT might return to users some of the ¥2,546bn (\$11.3bn) accumulated by the group in depreciation charges on plant and equipment before 1987, when

the then state-owned company was privatised. The report argues that some depreciation charges were excessive, as users were being overcharged. NTT should reimburse these customers through price reductions, says a report.

The ministry declined to comment on a report that reductions might cost NTT ¥150bn in lost revenues. The group had revenues in the

year to March of ¥3,653bn and pre-tax profits of ¥460bn. The ministry said it may instruct NTT to carry out the price cut, but no decision had yet been taken.

NTT said that the depreciation issue was fully considered at the time of privatisation and dealt with in line with accountants' reports. The money belonged to the shareholders.

## UK backs mortgage plan for SA blacks

By Patti Waldmeir in Johannesburg

SOUTH AFRICA'S critical shortage of black housing is to be tackled through a R3bn (£700m) mortgage loan programme backed by South African and multinational businesses, with aid from foreign countries including Britain.

The scheme, announced yesterday by the Urban Foundation, a private group funded by South African business, will give tens of thousands of poor black families access to mortgage finance for the first time.

Initially, South African banks and building societies have pledged about R1bn for mortgage lending to families currently excluded from the private-sector housing market. The Urban Foundation estimates that 40,000 houses could

be built with this money over the next three years, to house some 250,000 people.

The aim of the programme is to provide loans of as little as R2,500 (£290) to low income families who have been unable to afford the previous minimum loan of R25,000 provided by South African lending institutions. The higher limit excluded all but 10 per cent of blacks from obtaining private sector home finance.

Mr Jan Steyn, the Urban Foundation chairman, said the initiative was a breakthrough which would have a dramatic impact on South Africa's housing situation. The Foundation estimates that last year, there was a shortfall of some 800,000 homes needed for black families, with a further 2m homes needed in the next 20 years.

Moderate politicians in South Africa believe that a higher level of home ownership among blacks is essential to guarantee political stability in black townships.

Mr Nkomo Mofane, a community leader from the Soweto township, called on the Foundation yesterday to ensure the money was used to challenge South Africa's system of residential segregation.

However officials made it clear that while efforts would be made to ensure that the money is used to build homes for residents of unofficially segregated "grey" areas, abolition of all residential segregation could not be made a precondition of the programme.

South African and multinational businesses, along with three European governments including Britain, are to provide a R30m loan guarantee fund to mobilise the initial R1bn in mortgage finance. Britain is to contribute over R2m to the fund, which will provide a reinsurance facility to the South African short-term insurance industry.

The industry will then provide risk reduction cover to the banks and building societies, in what they consider a riskier form of lending. Altogether, lending institutions have agreed to lend some R3bn under the programme, though current house-building capacity cannot absorb such a large amount.

He warned that substantive national negotiations to resolve South Africa's constitutional crisis remained a remote prospect, a matter of years rather than months. "But at local level, there are severe pressures and real incentives for both sides to negotiate, and the scope for negotiated solutions is very significant."

The decision to bypass the black local council in Soweto - elected last year in a poll in which only 11 per cent of Sowetans took part - is seen as an implicit recognition by the Government that real power in the townships is held by radicals.

Recom, the electric power utility appears to have played a big role in bringing the two sides together.

## Iran seeks end to Maronite role

By Kamran Fazel in Tehran

IRAN has thrown its weight behind Lebanese Muslim leaders in calling for an end to the dominant role in Lebanese politics played by the country's Maronite Christian minority.

At the end of a meeting in Tehran between Iranian Government officials and a group of powerful Lebanese militia leaders, the official Tehran Times newspaper said yesterday that any political reforms should ensure that the presidency and the armed forces are no longer controlled by the Maronites.

The meeting, in which participants included Mr Naji Hariri of the Shia Amal movement, Mr Walid Jumblatt of the Druse Progressive Socialist Party, Sheikh Sobhi Tofaili of Hizbollah and dissident Palestinian faction leaders, appeared to raise fresh difficulties for Lebanese deputies discussing political reforms, in the Saudi report of Taif.

President Ali Akbar Hashemi Rafsanjani said on Wednesday that it would be an act of treason if Muslim deputies at the meeting in Saudi Arabia gave in to what he called unjust domination by the Maronites.

Dr Ali Akbar Velayati, the Iranian Foreign Minister who chaired the two-day meeting, told a press conference on Wednesday night that the only solution to the Lebanese problem was the introduction of a democratic system.

"The Muslims in Lebanon are in a majority, so they must have a bigger say in their country's affairs."

The Tehran meeting amounted to an attempt by Iran, which is still seeking to play an important role in Lebanese politics and which is jockeying with Saudi Arabia for influence in the Islamic world, to steal back some of the limelight from the Taif deliberations.

effectively the mouthpiece of the Iranian foreign ministry, said that the gathering of well-known political figures in the Iranian capital was "an obvious sign of their disagreement at what is going on in Taif."

Other newspapers have accused Saudi Arabia of acting as a proxy for the US in trying to mediate in Lebanon. Dr Velayati described the Taif meeting as "a plot by reactionary and aligned regimes in the region and big powers who have political claims on Lebanon."

Syria, which has a more direct influence than Iran in Lebanon, has promised to co-operate with Arab League mediation efforts in Lebanon. But the latest statements from Tehran can only stiffen the resolve of Muslim leaders to press for a wholesale revision of the constitution, as opposed to the piecemeal reforms being proposed by the Arab League.

## Soweto talks seen as a breakthrough

By Patti Waldmeir

SIGNS EMERGED this week of a better climate for negotiations in South Africa - at least at local level - from Soweto, the sprawling, smog-filled black township outside Johannesburg. At a national level, black and white South Africans have got no further than talking about talking about talks, as a Western diplomat remarked earlier this week.

In the case of Soweto, the need for direct contact between black and white leaders proved overwhelming. After a three-year consumer boycott in which about 80 per cent of Soweto residents have refused to pay rent, water or electricity charges, the government-appointed Transvaal Provincial Administration, which oversees administration of South

Africa's largest black township, agreed to meet national leaders of the anti-apartheid movement for the first time.

Bypassing black local councillors, the administrators dealt directly with the elected leaders of the so-called Mass Democratic Movement, including prominent anti-apartheid figures such as Archbishop Desmond Tutu, Mrs Albertina Sisulu of the banned United Democratic Front, and leading trade unionist Mr Cyril Ramaphosa.

The meeting on Monday was one of the highest-level contacts held between government officials and radical black leaders in the country. According to Mr Steven Friedman, a researcher at the South African Institute of Race Relations,

"the meeting indicated public recognition at the highest level so far of the need to negotiate with black leaders who operate outside the system."

Participants in the talks - which dealt with issues such as writing-off some R250m in rent and other arrears, the transfer of home ownership to Soweto residents, and the upgrading of services - say the two sides showed an unprecedented flexibility and willingness to compromise.

"You're talking about a fundamentally different style of politics on both sides," said Mr Friedman, noting that negotiating techniques learned in the decade since black trade unions were legalised in 1979 were being used for the first time by black political leaders.

He warned that substantive national negotiations to resolve South Africa's constitutional crisis remained a remote prospect, a matter of years rather than months. "But at local level, there are severe pressures and real incentives for both sides to negotiate, and the scope for negotiated solutions is very significant."

The decision to bypass the black local council in Soweto - elected last year in a poll in which only 11 per cent of Sowetans took part - is seen as an implicit recognition by the Government that real power in the townships is held by radicals.

Recom, the electric power utility appears to have played a big role in bringing the two sides together.

## US plan to solve Israeli impasse

By Hugh Carnegie in Jerusalem

AN AMERICAN proposal for discussions between the US, Israel and Egypt on the composition of a Palestinian delegation to take part in direct peace talks with Israel emerged yesterday as a possible compromise between the divided Likud and Labour coalition partners.

The two parties failed to resolve the differences over a US-backed Egyptian proposal to host Israeli-Palestinian talks on holding elections in the West Bank and Gaza Strip. The 12-man body, evenly split

between the two parties, resumes talks today.

Labour wants to accept the Egyptian initiative, but Likud, led by Mr Yitzhak Shamir, the Prime Minister, has so far refused. Mr Shamir rejects the intention to include people from outside the occupied territories associated with the Palestine Liberation Organisation.

Yesterday, Mr Shamir and Mr Moshe Arens, his Foreign Minister, told the inner cabinet that Mr James Baker, US Secretary of State, had suggested

three-way talks as a way forward. Ministers said they wanted more details before deciding whether to accept it as a way through the deadlock.

Both President Hosni Mubarak and Mr Baker have been pressing Mr Shamir to respond positively to Cairo's proposals, with Mr Mubarak offering a summit meeting with the premier if he accepts. By agreeing at least to further talks on the initiative, Mr Shamir would relieve some of the pressure on him, without commitments on his part.

## Move to make Antarctic 'protected park'

By Chris Sherwell in Sydney

AN AMBITIOUS proposal to declare the Antarctic a protected "wilderness park" is expected to dominate the 15th consultative meeting of Antarctic treaty countries starting in Paris on Monday.

The proposal comes from Australia and France, which will suggest a special meeting of the 39 Treaty parties next year to draw up a convention banning mining, and regulating all human activity in the vast icy continent.

The joint move follows Australia's reversal of position in May, when it decided against signing the Antarctic Minerals Convention agreed in Wellington in 1988.

The decision effectively torpedoed the convention, which had taken six laborious years to negotiate, and reflected Canberra's growing concern about the increasing domestic political importance of environmental issues.

France was another reluctant signatory, thanks in part to a campaign by Mr Jacques Cousteau, the famous oceanographer. Paris formally joined in the Australian initiative in August, when Mr Michel Rocard, France's Prime Minister, visited Canberra.

At one level, their urgency seems overdone. Certainly mining companies find the environmentalists' fears alarmist. No one knows for sure what lies beneath the ice cap, let alone wants to mine it. What is more, the Wellington convention requires anyone intending to explore or mine to overcome strict regulatory hurdles first.

ship in the Antarctic and the Exxon Valdez oil tanker disaster in Alaska have been sharp reminders that there is no protection against accidents. Separately, research work on the ozone layer has indicated the importance of Antarctica to the global climate.

Australia and France therefore want a much tougher regime, and India and Belgium are said to support them. They are now trying to win over countries which have yet to make up their minds - the majority - and to remove the doubts of the sceptics, mainly Britain and the US.

**Australia and France want a tougher regime. They are trying to win over countries that have yet to make up their minds, and remove the doubts of the sceptics**

One complication is that two other countries have alternative proposals to put forward. One, from Chile, involves a consolidation of existing measures. The other, from New Zealand, extends and toughens the rules for Antarctic operations without seeking a new convention.

How long all these countries have to pursue their diplomatic campaigns is a matter of opinion. There seems to be a window of two or three years before Treaty members are forced to make up their minds about the Wellington conven-

tion. For each one, the basic issue is clear. Does it want the protection offered by the Wellington agreement, which ensures any mining is regulated? Or does it want to rule out any possibility of mining through a new comprehensive environmental protection convention?

If they opt for the latter course - "to go for something better," as Canberra officials like to put it - the new convention would not only ban mining, it would also embrace other agreements and protective recommendations, including conventions already in place on Antarctic seals and Antarctic marine and living organisms.

Its terms would lay down explicit principles, have mandatory force, spell out obligations and penalties for infractions, provide for the settlement of disputes and set up institutions to make it all work. In short, there would be a new international organisation.

Agreement on this is plainly impossible at the forthcoming Paris gathering, which is the regular biennial meeting of Treaty countries and is due to end on October 19. Australia and France will simply be pleased if the meeting agrees the terms of reference for a special meeting next year.

For all the flurry of activity now, that will be when the real work starts. To judge by the protracted saga of the Wellington accord, and the decades-old history of disputed territorial claims in the Antarctic, a new long haul is just beginning. The risk of achieving nothing is palpable.

## Labor's motives come under attack

Recent moves arouse Australian suspicions, says Chris Sherwell

A SERIES of recent unexpected decisions by Prime Minister Bob Hawke's pro-market Labor party government has revived suspicions about its interventionist inclinations, and prompted questions regarding its commitment to economic deregulation.

With an election due some time in the next few months, the belief is growing that Labor's determination to win a record fourth successive term is outweighing its carefully cultivated reputation for taking tough or unpopular decisions.

According to the Opposition Liberal and National party coalition, which is exploiting the decisions to its political advantage, Labor is shoring up its position with vested interests instead of addressing fundamental problems of the Australian economy.

Three decisions in particular have attracted considerable attention: Compensation for the domestic airlines in relation to the pay dispute with their pilots, now in its seventh week.

In a decision worth an estimated A\$100m, the government decided to waive landing and other charges levied on the airlines while the dispute continued.

The aim of the decision was to help the airlines keep other employees at work, and was justified by the airlines' "unique" circumstances in having to retain those employees pending the recruitment of new pilots and the resumption of normal services.

But it provoked a furious response from the tourist industry, which has laid off thousands of employees because of the dispute. It was also seen as a deal to placate the trade union movement, which had warned the airlines and government sternly against any lay-offs in the aviation industry as a result of the pilots' action.

An offer of direct financial support to the US-owned Eastman Kodak group to prevent the closure of its colour film manufacturing facility in Victoria. The decision, still to be officially confirmed and which may require special legislation,

marks an abrupt departure from official policy, which is generally against industry assistance.

The offer is said to be worth up to A\$90m over five years, and has drawn a sharp reaction from other Australian manufacturers, not least because the company is foreign. But the government has pointed out that the plant earns some A\$170m in valuable export earnings. Significantly, it also employs some 500 people in an important electoral area.

The case arose because of Kodak's rationalisation of its worldwide operations. The company found that its Australian plant could supply its Australian and Asian markets more competitively than the Australian plant. Instead of removing the competitive weakness, particularly in management and labour, the plant looks like being nurtured.

A decision to lift the returns earned by Australia's big commercial banks on the "non-callable deposits" made compulsively with the Reserve Bank. In exchange, the banks have deferred increases in

## Savimbi set to resume peace talks

By Peter Riddell, US Editor, in Washington

MR. Jonas Savimbi, the Angolan rebel leader, responding to US prodding, said yesterday he was prepared to return to ceasefire talks under the mediation of President Mobutu Sese Seko of Zaire.

Mr Savimbi, whose US-backed UNITA guerrillas have been battling Angola's leftist government for 14 years, responded "absolutely" when asked if he would go back to the negotiating table with Mr Mobutu and President Eduardo dos Santos of Angola.

Mr Savimbi is in the US, along with leaders of the other groups in the conflict seeking to rally support from the administration and Congress.

US President George Bush yesterday repeated to the UNITA leader the same message he gave on Wednesday to President Mobutu - that the US wants the two sides to settle their differences in the hope of rescuing the stalled negotiations to end the civil war. President Mobutu has been acting with US backing as a mediator in the Angolan dispute.

The US has supported UNITA strongly with large-scale covert arms shipments, mainly delivered through Zaire.

Mr Bush yesterday reiterated its backing for UNITA and urged Mr Savimbi to work with President Mobutu and all the parties involved in the conflict. The US wants to prevent the collapse of the peace talks, which have already been violated by both sides who have refused to talk face-to-face.

## S Korean court jails clergyman for 10 years

By Maggie Ford in Seoul

A SOUTH Korean court yesterday sentenced the Rev Moon Ik Hwan, 71, a Protestant minister, to 10 years' jail for breaking the National Security law by visiting communist North Korea.

Mr Moon and Mr Yoo Won Ho, a businessman who had accompanied him on the clandestine trip, is expected to appeal. Their lawyers boycotted the sentencing session in protest at the conduct of the trial.

The minister, who has long been a fighter for democracy and human rights in South Korea, visited the North secretly in April. He met a number of officials in Pyongyang, including the North Korean President Kim Il Sung.

The visit shocked South Koreans, who have regarded the North as a great threat since the Korean war in the 1950s. Mr Moon and his family were born in Manchuria, now part of China, but formerly allied to the North.

The judge said that he could understand the defendant's desire to return to his roots and his commitment to the reunification of the two Koreas, but that considering his age, he emphasised, however, that Mr Moon had been the victim of a propaganda play by North Korea. All contacts with the North should go through legal channels, he said. Mr Moon's action had broken numerous aspects of the law framed to protect national security.

The revelation of Mr Moon's clandestine visit earlier this year unleashed a political backlash in South Korea by hardline anti-communists who felt that democratic change was undermining the foundation of the country. Since then, many alleged extremists have been arrested, especially those who have attempted to make contact with North Korea.

## AMERICAN NEWS

# Medical benefit proposals for US elderly collapse

By Peter Riddell, US Editor, in Washington

LONG-debated proposals to extend US hospital and medical benefits to elderly people have collapsed as a result of a highly effective revolt by a minority of the well-off retired who would have to pay more.

The House of Representatives has voted overwhelmingly, 360 votes to 66, to repeal the "catastrophic health insurance programme," introduced only last year. A compromise to retain some of the plan was rejected by 269 votes to 158. The measure is now being considered by the Senate.

These votes are regarded as highly significant indications both of the power of the "seniors" lobby and of the continuing strength of anti-tax feeling in the US.

This makes it likely that Congress will defer decisions on how to help the elderly pay for long-term health care and how to assist the 37m others in the US without any health insurance.

Catastrophic health insurance, seen as one of the main social policy achievements of

the Reagan era, expanded hospital and medical benefits for 38m elderly and disabled people by, for instance, extending from 60 to 365 the number of days each year paid for by Medicare and by paying for the bulk of outpatient prescription costs over \$600 a year.

These benefits were to be financed by the elderly themselves through an income-based premium paid for by around 40 per cent of those with the highest incomes. Other social security and health benefits are financed by broader taxes paid by those in work or by general tax revenues.

However, while only about 5.6 per cent would pay the maximum \$900 premium, or surtax, this year, they proved to be the most vocal, bombarding Congress with letters and telephone protests. On one memorable televised occasion, they ambushed Mr Dan Rostenkowski, the Democratic chairman of the House Ways and Means Committee, as he got out of his car.

## Women lose multi-billion dollar discrimination case

By Louise Kehoe in San Francisco

TENS of thousands of women employed by the State of California over the past 12 years were not victims of sexual discrimination, a Federal judge in San Francisco has ruled in the largest "comparable worth" lawsuit in US history.

The California State Employees' Association had claimed that the state deliberately discriminated against women in setting salaries. The union argued that employees in predominantly female jobs, such as nurses, teachers and clerical workers, were paid less than those in male-dominated jobs.

The union's president, Ms Margaret Dean, said the CSEA was disappointed by the decision but did not regret bringing the case. "We know that we brought to light a deliberate policy to pay women less

than men." No decision had been made on an appeal. State officials said a ruling in favour of the women employees could have cost billions of dollars in back pay.

The state argued that while women in female-dominated jobs had lower salaries than workers in male-dominated jobs, pay for those women matched pay for similar private jobs. Male state employees, on the other hand, generally were paid less than their private sector counterparts.

Relying on the marketplace enables employers to institutionalise discrimination against women and minorities, argued Nancy Davis of Equal Rights Advocates, a San Francisco feminist law firm involved in the case. "The market itself is discriminatory."

## Bush due for minor surgery today

By Peter Riddell

PRESIDENT George Bush is to have minor surgery on his hand this morning to remove a small growth from the middle finger of his right hand.

Mr Martin Fitzwater, the White House spokesman, said yesterday that clinical observation suggested the growth was benign, though a biopsy will be performed.

The operation will be performed under local anaesthesia at the Walter Reed Army Hospital and will take about an hour. Mr Bush will be in hospital for about two or three hours.

## Evangelist found guilty of fraud

Jim Bakker, the US television evangelist, was yesterday found guilty of defrauding supporters of millions of dollars and using some of the money to buy homes, cars, holidays and even an air-conditioned dog kennel, Reuter reports from Charlotte.

The jury deliberated only a day before returning its verdict in the six-week-old trial, finding Bakker guilty on all 24 charges against him.

After being found guilty on all the 24 counts of fraud and conspiracy against him, Bakker faces a maximum penalty of 120 years in jail and a \$5m fine.

## Colombia heads for cabinet reshuffle

Colombian Interior Minister Orlando Vasquez Velasquez said he was resigning his post and political sources expected a cabinet reshuffle within a week, Reuter reports from Bogotá.

Monica de Greiff, Justice Minister, who had become a symbol of Colombia's war against drug traffickers, resigned two weeks ago after repeated death threats.

The political sources said Carlos Lemos Simmonds, Communications Minister and acting Justice Minister, would take over the Interior portfolio.

# Eagerness to aid Poles spurs White House

Peter Riddell on the pressures that led to an increased US package of assistance

PRESIDENT George Bush can never be accused of impetuosity in his foreign policy. Whether it is Panama, South Africa, relations with the Soviet Union or the hectic pace of change in Eastern Europe, his watchword is caution.

At times this has meant his administration has lagged behind domestic political and international opinion, but then he has responded, seldom taking the lead and generally moving in line with other western countries. This not only reflects the character of Mr Bush and his advisers but also the changed US position in the world and its financial constraints, which force it to be a partner rather than dominant power.

The latest \$200m package of aid to Poland, taking the total of direct US help up to \$447m, is a result of such a process. The initial US package of \$150m, excluding food aid, was announced by Mr Bush when he visited Poland nearly three

months ago. Then there was no immediate prospect of a Solidarity-led Government and, as the White House said on Tuesday, that package "took account of the fact that Poland did not yet have its new government or its new economic policies in place."

However, much has changed since then, not only in Poland but also in the US. By sticking to its July package and only talking vaguely about considering more help, the administration appeared to be failing to respond to events. Senator George Mitchell, the Democratic majority leader and as a cautious politician as Mr Bush in many ways, criticised the administration for timidity and the Senate Foreign Relations Committee proposed its own \$1.2bn plan.

On Tuesday the Democratic leadership of both the Senate and House proposed an \$867m package of economic and industrial aid over the next three years which would be pushed rapidly through Con-

## US aid for Poland

● July: \$100m enterprise fund; \$15m to clear up the environment; \$4m for unions and job-training. Support for early Paris Club rescheduling of Poland's \$30bn debts and backing Polish agreement with International Monetary Fund.

● August/September: Two-stage contribution of \$108m to international emergency food aid.

● October: \$200m US grant as contribution to \$1bn international stabilisation fund for Poland, conditional on IMF agreement and report of experts' mission to Warsaw.

gress. The Democrats wanted to have their plan approved when Mr Lech Walesa, the Solidarity leader, is due to address a joint session of Congress on November 15.

All this activity on Capitol Hill has undoubtedly provided a spur to administration thinking - especially as Mr Bush

and his senior advisers were last week presented with the detailed Polish recovery plan by members of the Solidarity government in the US for the International Monetary Fund and World Bank annual meeting. White House officials were impressed by the boldness of the proposals, which included the \$1bn stabilisation fund, and soon agreed to respond - though both the Treasury and the Office of Management and the Budget were cautious about the scale and conditions.

Mr Bush in the end typically agreed that the increased aid - presented as a grant rather than a loan to avoid adding to Poland's debts - should be made conditional on the Warsaw Government reaching an agreement with the IMF on a reform programme. The president has throughout insisted on support being linked specifically to internal structural reforms.

Moreover, the US aid is being carefully co-ordinated with other western, notably

European, efforts - especially the group of 24 countries chaired by the European Commission. The US announcement came a day after EC ministers agreed on \$330m in additional help.

The White House hopes to have regained the political initiative with its latest package. But Senator Mitchell has said the additional \$200m "remains insufficient by itself" and has suggested it be "a complement to, and not a substitute for," Congressional proposals. The White House has accepted that "the numbers are negotiable."

Significantly, a new Washington Post/ABC poll shows that two-thirds of those interviewed believe the Bush administration was doing all it can to help countries like Poland, a much higher approval rating than on issues like drugs, pollution and the budget deficit.

The main beneficiary, however, from all this domestic political competition will be Poland.

# Panama crackdown reveals scale of revolt

Tim Coone and David Gardner on the military men who turned against Gen Noriega

ARRESTS following Tuesday's attempted coup against General Manuel Antonio Noriega, Panama's military strongman, indicate that he has lost much of his support amongst the military.

The coup, initiated by middle-ranking officers of the Panamanian Defence Forces (PDF), resulted in the death of 10 troops and the wounding of 31 others.

Gen Noriega was in the barracks with several PDF chiefs of staff when Major Moises Giraldi, the head of the garrison, led an insurrection, attempting to seize him alive along with other senior staff officers. But loyal troops were brought in to crush the rebellion, and Gen Noriega escaped unhurt.

The subsequent arrest of 27 officers included Colonel Guillermo Wong, head of military intelligence, Col Julio Ow Young, the general staff's chief of operations, and Lt Col Armando Palacios, a general staff liaison officer with the US over Canal security and

defence. This indicates a widespread revolt in the PDF against Gen Noriega's leadership. All three officers had been promoted at the time of the last failed coup against Noriega in March last year.

According to an official Panamanian government report released on Wednesday night, Maj Giraldi is dead, along with nine other rebels, seven of them officers. Three rebels were wounded while another five have sought refuge in Fort Clayton, a US military base.

This group includes another of the coup leaders, Captain Xavier Lison, US Southern Command neither confirms or denies this.

Maj Giraldi was one of Gen Noriega's most loyal officers, having been in charge of the suppression of an earlier coup attempt. Capt Lison, now a fugitive, was until last year the head of Gen Noriega's personal escort, while Gen Wong, as head of intelligence, held one of the most sensitive posts in the

PDF. According to the Panamanian government he had been chosen by the rebels to replace Gen Noriega.

In last year's coup the General's opponents were military lightweights, most of them with desk jobs or from police units.

It is still unclear why the US failed to come to the aid of the beleaguered rebels. Despite US government denials, the insurgents had back-up support of US forces based in the country; but this was then inexplicably withheld at a crucial moment, allowing reinforcements loyal to Gen Noriega to arrive.

The Bush Administration has come under severe Congressional criticism for not doing more to aid the rebels. Yesterday Dick Cheney, US Secretary of Defence, said the coup leaders had no intention of forcing Noriega from the country.

Cheney said that "shortly before the coup collapsed, contact between one of our military officers and two junior officers that were involved in

the coup" occurred at Fort Clayton.

Asked about the meeting, Mr Cheney said: "They made it clear to us that they would not turn Noriega over to us."

A plausible explanation was provided yesterday by a self-proclaimed "neutral" officer who was present during the battle. He said that Gen Noriega and his fellow staff officers succeeded in locking themselves in a small bunker within the barracks from where they called for help and directed the counter-attack.

The unwillingness of the rebel officers to blow the bunker open, thereby risking the death of Gen Noriega, appears to be a major factor in the coup's failure.

Reports from the US on Wednesday night say that Gen Mark Cisarova, the deputy commander of US Southern Command in Panama, failed to act on an invitation by the rebels to send in a US helicopter to take Noriega out of the bar-

racks because they themselves could not do so.

Reluctance in Washington to get so directly involved in the coup gave loyalist troops time to arrive. The landing of US helicopters at the barracks might have led to a confrontation with well-armed Panamanian troops.

The arrest of Col Wong and two other members of the PDF general staff also has serious implications for continuing, joint US-Panamanian management of the Panama Canal - which throughout the two-year crisis has operated normally.

Col Wong, Ow Young and Palacios all played lead roles in the joint defence of the Canal to which the 1977 Panama Canal Treaties commits Panama and the US and were highly regarded professionally by the US side.

The detention of these officers indicates not only that the cohesion of the structure has now gone, but that there appears no longer to be any one on the PDF side that the US can do business with.

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WORLD TRADE NEWS

# Hong Kong's exporters look to regional markets

By Peter Montagnon, World Trade Editor

REGIONAL markets in south-east Asia are becoming an increasingly important source of business for Hong Kong exporters thanks to their high growth rates and increasing trade liberalisation, Dame Lydia Dunn, chairman of the Hong Kong Trade Development Council said yesterday.

Though mainland China was clearly established as the territory's principal trading partner and trade had held up well since the political crackdown after the Tiananmen Square massacre in June this year, business with other Asian countries was now also growing faster than with either the US or western Europe.

Exports (including re-exports) to Asian countries excluding China grew by 25.4 per cent to HK\$56.99bn (\$4.55bn) in the first six months of this year compared with same period of 1988. By comparison the growth rate for sales to the US was 17 per cent and to Europe 18.3 per cent, while total exports grew 22 per cent.

Dame Lydia, the most senior member of Hong Kong's Executive Council, said the growth of trade with the rest of Asia affected not only countries like Taiwan and South Korea, which had undertaken rapid liberalisation programmes to ward off US protectionist pres-

# Orders for French civil aircraft buoyant

By Ian Davidson in Paris

THE FRENCH aerospace industry's order books stood 75 per cent higher in the first eight months of this year compared with last year, according to the industry association.

This buoyancy is exclusively concentrated on the civil side, while the share of orders going to military aircraft slumped sharply and may turn out to be lower in absolute terms than last year.

Total aerospace orders so far this year amount to about FF100bn (\$10bn), compared with just under FF87bn over the same period last year. Of the totals, export orders amount to FF65bn, compared with FF70bn for the whole of 1988.

Civil aerospace orders accounted for 72 per cent of the total during the first eight months of this year, compared with 54 per cent in 1988.

The French arms industry performed strongly in export markets last year, both in orders and deliveries, but official sources warn that this buoyancy is likely to be a temporary diversion from the downward trend of recent years.

Export orders totalled FF237bn, compared with FF228bn in 1987, and deliveries reached comparable levels. These figures were well down compared with the high point of the mid-eighties (FF62bn of orders in 1984), however, and some sources forecast a sharp drop in export orders this year to FF20bn.

The projected decline in export orders results mainly from the saturation of demand and/or the accumulation of debts in a number of countries in the Middle East and Latin America.

When combined with the projected trimming of the French defence equipment budget during the next four years (down by FF40bn compared with earlier projections), the French arms industry could be facing a difficult few years. One survey estimates that between 50,000 and 100,000 of the 280,000 jobs in the French arms industry could be at risk.

# Apple's practices give Japanese the pip

Tokyo is counterattacking in the battle over unfair trading, writes Louise Kehoe



"WHY has Apple Computer been singled out by Japan's Fair Trade Commission?" officials of the US personal computer manufacturer asked yesterday. Shocked by the news that the Tokyo offices of their Japanese subsidiary had been searched by Japanese officials last Tuesday and that the company is alleged to have infringed Japanese anti-monopoly regulations, Apple vigorously denied any wrongdoing.

"Apple is a curious target of investigation," a spokesman for the US parent company said. Although not ready to label the Japanese government agency's accusations as politically motivated, Apple is considering its options, including an appeal to the US government.

Following several US allegations of unfair trade practices by Japanese high technology companies, the Japanese investigation of Apple Computer is widely viewed in the US computer industry as a counter attack.

On that Tuesday, Japanese Fair Trade Commission officials searched the offices of

Apple Japan and those of Canon Sales, Apple's primary Japanese distributor, and said that the companies were suspected of attempting to prevent "parallel imports" of Apple Computer products.

Parallel imports, or "grey marketers" as Apple calls them, purchase Apple's computers in the US from retail dealers, ship them to Japan and sell them at a significant discount from the prices quoted by Apple's authorised Japanese distributors, including Canon.

Parallel importing is a common, and legal, practice in Japan. Among those to feel the effects of this cut-price trade are European car manufacturers and foreign makers of a variety of luxury brand-named goods.

Grey market prices for Apple Computers sold in Japan are reported to be as much as 50 per cent below those of Apple's official Japanese dealers.

Apple has attempted to stamp out "grey marketing" of its products in Japan and in other countries by tracing the US source of the products, the

company acknowledges. In most cases, the grey market is supplied by official US Apple retail dealers who, despite restrictions in their contracts, "trans-ship" Apple products to export markets. When Apple finds out, it rescinds the US dealer's contract.

According to international trade law experts, Apple's US activities to prevent grey marketing do not transgress Japan's anti-monopoly rules, which have no extra-territorial power.

Apple claims that it needs to maintain control of its international distribution channels in order to ensure a high level of service and support to its customers. The company also defends its significant price differential between the US and Japan as the cost of shipping and "localising" its products - Japanese versions of Apple's computers can display Kanji characters.

Apple is blamed, by some US industry analysts, for feeding the grey market by insisting that its US dealers achieve high sales quotas. To meet Apple's demands, some dealers have funnelled surplus products to unauthorised exporters, according to industry reports.

In Japan, Apple is accused of having refused to service or repair its products when they have been bought from parallel importers. Canon, Apple's distributor, is alleged to have pressured computer magazines to reject parallel importers' advertisements. Both companies deny the charges.

The irony of "unfair trade" allegations being levelled against a US computer company by Japan, following the numerous US claims against Japanese companies, is felt acutely in the US. The timing is particularly significant in view of current US-Japanese talks about Japan's complex distribution system, which the US has cited as a trade barrier.

A close examination of Apple Computer's anti-grey-market activities is almost sure to focus attention upon the US personal computer distribution system. US personal computer manufacturers' control over distribution channels is widely felt to have prevented foreign - especially Japanese - computer makers from winning a major share of the US personal computer market.

Scrutiny of the US electronics industry distribution system might also reveal the efforts of US semiconductor manufacturers to prevent US wholesale distributors from carrying products made by the major Japanese chip makers.

US critics of its distribution system, it could hardly have chosen a better example than the US personal computer industry. What better target, then, than Apple Computer, Silicon Valley's most widely acclaimed company? The timing of the Japanese investigation is, of course, purely coincidental.

# Airbus wins \$700m order from Ansett leasing arm

By Chris Sherwell in Sydney

AIRBUS Industrie, the European aircraft manufacturing consortium, has secured an order for 12 A-321 passenger jets and options for up to eight more from Ansett, the Australian domestic carrier.

The \$700m order has been made by Ansett Worldwide Aviation Services, the group's leasing arm, which is thought to rank third in the world aircraft leasing business behind GPA of Ireland and International Lease Finance Corporation of California.

The A-321 is the "stretched" version of the A-320, with some 175-180 seats compared to the standard version's 145-155 seats. Airbus is to deliver the aircraft after 1994 at a price of \$50m-\$60m each.

Ansett is owned by Sir Peter Abeles' TNT transport company and Mr Rupert Murdoch's News Group.

The leasing group is thought to own some 36 aircraft, far less than its two larger rivals, but has orders for many more and nurtures ambitions to become a major force in the worldwide business.

# Mexico trade deal reflects US policy change

By Nancy Dunne in Washington

THE US-Mexican trade and investment agreement, announced during the visit of President Carlos Salinas de Gortari to Washington this week, has highlighted the warming ties between the two neighbours.

At the same time it clarified US commitment to the multilateral trading system and liberalisation of world trade through the Uruguay Round.

The agreement, mandating future negotiations, accompanied by an ambitious timetable designed to produce initial results by next summer, represents a change of policy by President George Bush.

His predecessor talked of a North American Common Market and during the presidential campaign, Mr Bush suggested that the future of US-Mexican relations could be best served by a free trade agreement (FTA), something akin to the one negotiated with Canada under President Reagan.

But the US-Canada FTA raised widespread doubt about

US intentions towards the Uruguay Round and fuelled forecasts that the world trading system was headed towards a break up into regional trading blocs.

When the Bush Administration was forced by Congress to produce a statement of its trade policy, it declared multilateralism as its overriding goal. It sounded like little more than stale rhetoric.

Then, Mrs Carla Hills, the US Trade Representative, put the Super-301 clause of the US 1988 Omnibus Trade Bill in the context of the Uruguay Round by targeting issues under discussion in Geneva, such like intellectual property rights, market access and trade in services.

Even the continuation for 2½ years of the steel "voluntary" restraint agreements, the fulfilment of a last Bush campaign promise, was accompanied by a call for a multilateral commitment to end trade-distorting practices in steel. Additional market share was

offered as bait to those signing up to a bilateral consensus agreement - Mexico is one that has agreed - with the pact to be folded into a multilateral agreement in the Round.

President Bush badly wants to help Mexico climb out of its debt morass. At the very least, Mexico's recovery is necessary to stem the immigration flood, which threatens to Hispanicise US culture in the next few decades. But several free trade agreements were ruled out as "troublesome" to the Gatt negotiations.

Instead, the intention seems to be greater integration between US and Mexican industry and policies which would ease Mexican's intentions to open its economy. In a separate announcement Mr Robert Mosbacher, the US Commerce Secretary, announced the creation of a bi-national committee to promote trade and investment, and said that he would lead a US business group to Mexico in

November to search out investment opportunities. He predicted that US-Mexican trade would hit a record \$50bn this year.

The action plan agreed upon for talks would establish a list of product areas and non-sectoral issues (i.e. services, distribution problems, intellectual property rights) to be selected for discussion by November.

Only autos are definitely on the list for product sector talks, but also under consideration are pharmaceuticals, telecommunications, petrochemicals, computers and electronics and food processing.

After an intensive period of analysis conducted by bi-national teams of experts, negotiations will focus on trade problems between the two countries. Agreements would be subject to most favoured nation treatment, which under the Gatt, requires that concessions made to one country be made available to all.

The understanding signed by Washington and the Mexicans

also announced:

- Talks on the bilateral textile agreement in which the US promises more flexibility and a streamlining of provisions.
- The establishment of five bi-national technical groups to promote closer working relations in agriculture with co-operation advanced in marketing, inspection and research systems, and harmonisation of research programmes.
- Discussion to improve access for motor carriers, compatible safety standards, streamlined customs procedures and increased investment.
- A new dialogue on subsidies and countervailing duty issues.
- Potential new Mexican products could be considered for the US Generalised System of Preferences scheme.

Unlike other trade provisions, enacted in last year's trade legislation, none of these can be seen as counter to the Gatt. But all can help Mexico in its determination to grow out of its debt.

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## LAW CONFERENCE

BAR ASSOCIATION IN STRASBOURG  
Ministers 'likely to clear way on EC merger rules'

By Robert Rice, Legal Correspondent

UNRESOLVED issues surrounding the European merger regulation are expected to be ironed out at a meeting of the Council of Ministers next week clearing the way for its adoption by the end of the year, the head of the competition directorate of the European Commission said yesterday.

De John Temple Lang, director of competition, told the International Bar Association conference in Strasbourg the Commission wished to see the merger regulation adopted because of several aspects of the present law contained in Articles 85 and 86 which were unclear or otherwise unsatisfactory.

He warned lawyers who might be involved in mergers with a Community dimension, however, that even if the regulation was adopted they could not afford to ignore the effects of Articles 85 and 86. If the regulation was adopted by the end of the year it would probably be at least another 12 months before it took effect.

As transnational merger activity in Europe increases in the run-up to 1992, it was likely that a great number of mergers would fall to be dealt with under the existing law over the next year. Even after the merger regulation took effect it was likely the Commission would come under enormous pressure to use the existing law in respect of mergers falling below the threshold set by the new regulation for triggering its operation.

## Directive could hit holiday prices

By Raymond Hughes

PACKAGE holiday prices could increase substantially if a draft European Community directive on the responsibilities of tour operators and travel agents is implemented.

Lawyers attending the International Bar Association's conference in Strasbourg were told yesterday that a directive could make operators and agents open to claims from holidaymakers for personal injuries and complaints of poor accommodation.

Mr Sidney Perez, director of the Association of British Travel Agents, said: "This will mean an absolute, no-fault, unlimited liability for every eventuality. We believe that much of what is proposed is unnecessary and the rest will be very expensive."

The typical package holiday now costing £550, would go up by 10 per cent, Mr Perez said. The cost of adventure holidays and trips to Third World countries would increase even more.

The draft directive from the European Commission provides that the liability for "any deficiency" in the provision of services "lies either with the organiser or with the retailer."

## Legal aid 'could be financed by law tax'

By Raymond Hughes

CONTRIBUTIONS by taxpayers or a levy on lawyers were yesterday suggested as possible ways of financing the provision of legal aid services.

Mr Stephen Gilchrist, a London solicitor, said that taxpayers might make a specific contribution to publicly funded legal services in the same way that, in the UK, they now contribute to the upkeep of the National Health Service.

"To some extent, this might well isolate the provision of public funds for legal aid work from current economic conditions. It is a scheme the general public could be educated to accept," Mr Gilchrist told the International Bar Association conference in Strasbourg.

Alternatively, a levy might be imposed on lawyers in private practice and not doing legal aid work to subsidise colleagues working within a legal aid scheme.

It was also quite wrong for any government to rely on the good offices of such lawyers to excuse the implementation of a proper scheme, he said.

shall their best points and present them in succinct form. This would help to speed up the process considerably at a time when the Commission was likely to be under pressure from increased merger activity.

Among the unresolved questions which are expected to be cleared up at next week's meeting are whether only competition criteria may be applied by the Commission, or whether other criteria—for example, industrial policy—could also be applied where the threshold above which prior notification of a merger would be required should be set. Should it be set at a combined world turnover of £500m as favoured by Britain and West Germany or at a lower level favoured by other member states?

The legal position of mergers below the thresholds was not yet clear, Dr Temple Lang said. The insistence of some member states that national laws should apply below the threshold would mean that only a very limited number of very large mergers would be dealt with by a single merger competition authority.

Many more mergers, and smaller ones, would be subject to two or more authorities and perhaps EC law as well.

Turnover thresholds in absolute terms were high in some industries and low in others compared with total EC output.

If the threshold was high, few mergers in the industry in question would come under the regulation, so concentration would be permitted unless Articles 85 and 86 were applied on the basis of complaints.

If the threshold was low, more mergers would come under the regulation and be exempt from national law, even if the risk of excessive concentration was not great.

The issue of whether, even above the threshold, national non-competition laws may still apply, also remained to be resolved, he said.

## Hinari 'a victim of high street spending squeeze'

By James Buxton, Scottish Correspondent

HINARI, the UK consumer electronics company which this week appointed administrators, was a victim of the squeeze on high street spending caused by high interest rates, Mr Brian Palmer, its former chairman and managing director said yesterday.

Mr Palmer said the company, a supplier of televisions, video recorders and audio equipment, did not have the financial strength to survive a "monstrous year" in consumer electronics retailing.

Hinari's directors on Wednesday appointed Cork Gully as administrators of the company, based at Cumberland, near Glasgow, because it appeared to be insolvent. The company, which employs 122 people, has debts of about £30m. Mr Frank Blin, one of the two administrators, is reviewing the company's financial and trading position to see if it can be kept going in some form.

Mr Palmer, 44, was dismissed as chairman and chief executive six weeks ago by institutional shareholders, led by the merchant bank, Hill Samuel, which last year invested £2m in the company and took a 14.4 per cent stake. There were hopes then that Hinari could in due course become a quoted



Brian Palmer candid about structural weaknesses

company and match Amstrad as a significant British force in consumer electronics.

Hinari had annual turnover of about £80m and its products established a good reputation. "The downturn in the market this year hasn't been huge but there was tremendous competition and everyone started chasing the same orders," he said yesterday. "Our margins were badly hit and we were caught with too much stock. It's only a young business and

we didn't have the asset base to ride out a year like this."

Mr Palmer said Hinari's accounts for the year to February this year had not been finalised when he left the company, but he thought they were "around break-even point," having made a profit the previous year.

He would not comment on why he was dismissed. The institutional shareholders have made clear that although they considered Mr Palmer a superb creator of a business and an excellent salesman, they felt Hinari needed a chief executive with broader management skills to run what had become a large business. When they became involved in August last year they insisted on the appointment of a finance director. In June this year he resigned.

One institutional investor, who asked not to be named, said yesterday: "The institutions struggled to put right weaknesses in management and financial information systems that we saw from the beginning but sadly the struggle was to no avail."

Mr Palmer was always remarkably candid about Hinari's structural weaknesses. Last winter he said: "You can't manage growth."

## Office and shop project for Salford docklands

By Ian Hamilton Fazey

CHARTER Developments, the group responsible for the Harbour Exchange offices complex in London Docklands, yesterday announced a £125m scheme in Manchester's docklands which it says will be completed by August 1991.

The complex will be called Exchange Quay and will comprise 530,000 sq ft of offices and shops on 7.3 acres on the northern bank of the Manchester Ship Canal, near Salford Quays and in the Salford enterprise zone but under Trafford Park Development Corporation.

The land's enterprise zone status expires in 1991 and with it the "tax shelter" status of the development. Charter hopes to sell much of the complex in parts to investing institutions, unit trusts and individuals before then.

Building has started and lots are being offered at between £30,000 and £35m. Investors would be able to set the cost of purchase against tax under the 100 per cent first-year capital allowance rules that apply.

The complex has been designed by the Selfert Group of architects.

## Manchester expects investment of £1bn

By Ian Hamilton Fazey, Northern Correspondent

THE Government-backed Central Manchester Development Corporation yesterday predicted private-sector investment of £1bn in the city centre during the next five to 10 years.

The investment is expected in offices, shops, hotels and housing within the 470 acres where the corporation is responsible for stimulating regeneration.

When the corporation started operations a year ago its target was £180m from the private sector by 1993. Dr James Grigor, the chairman, said yesterday: "We are now confident we can secure £750m of investment and that every pound of public money will be backed by seven from the private sector."

That means that the corpora-

tion will probably be asking the Government for more money for pump priming.

Its total funding was initially expected to range between £60m and £80m over its lifetime. Its need now looks more likely to be about £100m. This year's budget is £13m, but may go up after negotiation.

Dr Grigor yesterday launched the corporation's strategy document. It divides the city centre into zones for offices, housing, hotels, other business premises, leisure and tourism. There would be cheap housing as well as prestige flats, Dr Grigor said.

"The attraction of the areas is such that we can see another £250m proceeding without pump priming on our part," he added. Up to 7,000 jobs would be created.

## Libel judgment reserved

THE COURT of Appeal yesterday reserved judgment in the appeal by Private Eye magazine against the £800,000 libel award to Mrs Sonia Sutcliffe, wife of the Yorkshire Ripper.

The decision was made in spite of an appeal by Mrs Sutcliffe to let the appeal judges reassess the damages. Her

counsel, Mr Geoffrey Shaw, had told the court he had new instructions to ask the court to reassess the award if the appeal went against her.

But Mr Gavin Lightman, QC, for Private Eye, said it wanted a retrial over its liability and the size of the award. The judges will give their decision within three weeks.

## GLOBAL INTEGRATION THROUGH OVERSEAS INVESTMENT

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## A Key Participant in European Industry

From its origins in synthetic textiles, the large Toray Group has assembled a broad range of operations in Europe—from textiles to carbon fibres.

Geoffrey D. Woods, Managing Director of Toray Textiles Europe, and Michel Brisson, Directeur General of SOFICAR Abidos in France explain.

By Brian Robbins



Mr. Geoffrey D. Woods, Managing Director, Toray Textiles Europe Ltd.



Mr. Michel Brisson, Directeur General, Société des Fibres de Carbone S.A. (SOFICAR)

Toray Industries has long been involved in European industry, but over the past twelve months, it has lifted its exposure substantially.

The two key moves were the acquisition of the long respected textile firm of Samuel Courtauld in the United Kingdom, and the taking of majority control of SOFICAR (Société des Fibres de Carbone) in France.

The purchase of Samuel Courtauld is redolent with history, since the technology of this group played a pivotal role in the development of the textile industry worldwide. When Toray was first establishing its viscose rayon operations in Japan more than 60 years ago, for example, it tapped into the expertise of former Courtaulds employees.

Samuel Courtauld actually traces its roots to the early 18th Century, when it was launched as a modest silk weaving operation.

Now, the acquisition of Samuel Courtauld, since renamed Toray Textiles Europe, forms a key element of the group's desire to move closer to the major textile users in Europe.

"Toray Textiles Europe, formerly Samuel Courtauld, is Europe's leading producer of woven polyester fabrics for the apparel industry," says Geoffrey Woods. "Toray is one of the world leaders in polyester fibre and fabric technology, so it is natural that our operation will fit in well with the new owner. Also, we will benefit from Toray's expertise, while we will continue to concentrate on other businesses where we have special skills."

"The acquisition was borne out of long-standing connections between the two companies and Toray Textiles Europe will continue to be operated as an independent profit-centre subsidiary," Woods explains. "The UK operation of Toray Textiles Europe encompasses production of 25 million metres of material annually, which is sold throughout Europe, achieving annual revenues of more than £35 million."

In the UK, Toray Textiles Europe is not resting on its laurels. In its first year under new ownership, production and sales are targeted at growth of 15 per cent.

"Now, our current sales

volume is approaching £40 million a year," Woods says, "and we will produce about 30 million metres of fabric this year."

"After the acquisition by Toray, we conducted an in-depth survey of employee attitudes, with a variety of questions about communications, training systems, management effectiveness and the like."

"The results showed that 84 per cent of employees are not at all concerned with the fact that the company is now owned by a big Japanese group but, interestingly enough, 16 per cent were concerned that they may have to do physical exercise each morning and sing the company song!" (During his April visit to Toray, Woods mentioned this survey to Toray President Maeda, who said, "I don't intend to apply such Japanese-style management ideas as singing company songs to Toray Textiles Europe. However, I hope to strengthen Toray Textiles Europe's operations by transferring Toray's management style, which stresses 'objective management.'")

"Now that we are part of the large Toray Group, we feel that we have the full backing—both technically and financially—to achieve our long-term management targets which are to achieve the highest international standards of excellence in production and service to customers."

## Capacity Expansion Likely in UK

And, of considerable importance for this new affiliate's medium-term growth, a full internal appraisal is now under way to

determine future investment decisions, so as to position the group for sustained growth during the 1990s as it takes advantage of emerging opportunities in the post-1992 European market.

Clearly, Toray is convinced that there will be further growth in demand for quality textiles in the European market, and it is poised to service that growth initially through its acquisition of Samuel Courtauld, and secondly through planned capacity expansions.

Toray's activities in the UK form only one element of its European interests, with operations also spanning the Continent, from a trading company in West Germany to a synthetic suede production unit called ALCANTARA S.p.A. in Italy.

## Leading Producer of Carbon Fibres

Equally important in positioning the Toray Group for future growth is the SOFICAR unit in France, which is a specialist producer of carbon fibres, a material with specific applications to the aviation sector, along with applications in other areas such as sporting goods.

The Toray/SOFICAR Group is one of the major integrated producers of carbon fibres, accounting for over 30 per cent of global production.

Originally launched as a joint venture between Toray and local French groups such as the big Elf Aquitaine resources group, SOFICAR's ownership was reorganised in late 1988 in order to put the operation on to a better financial footing.

"This structural change, corresponding to Toray taking majority share of SOFICAR in 1988," Michel Brisson says, "was very important in assuring the durability and expansion of our company, through improved conditions in the major fields of activity."

"The carbon fibre business is very international since major customers have operations in Europe, the US and the Far East, so that many production programmes are jointly arranged worldwide."

"So, with SOFICAR becoming integrated within the Toray Group, this makes our activities much simpler, especially in terms of dealing with our customers. As well, it helps broaden our sales outlets and gives us more flexibility in meeting the changing needs of the market," Brisson explains.

"Besides, at Toray/SOFICAR we have a wide product range, with differing grades so that we can meet customer requirements, which sometimes involve difficult production requirements."

## Key Approvals for SOFICAR's Output Received

Since production was launched in the mid-1980s, output from this company has been approved for use in the aviation industry in France, and, at the end of 1988, by Boeing of the US—two key developments which both attest to the quality of production from this group affiliate. Clearly, these two approvals will enable SOFICAR to participate fully in the rapid growth now being experienced in the aviation sector.

Now that SOFICAR is under

Toray's operating control, the plant is running at full capacity.

Long-term plans provide for a possible doubling of output at the SOFICAR operation, although any firm decision will be closely matched with future demand trends.

"SOFICAR is for the moment, in a transition period," says SOFICAR's Brisson, "which we are now sure will be transformed soon into an expansion phase."

"But, in order to keep its position in the market, and to take advantage of the booming aviation programme in Europe, SOFICAR will have to work closely with Toray to stay abreast of new technologies."

"Internally, our main policies for the future are to be the most reliable and attractive producer in terms of product quality, supply ability and product range, and to thus meet the future requirements in the advanced composites field. As well, we are seeking to put priority on production expansion so as to meet rising demand, especially in Europe's post-1992 market."

## Close Links Between Japanese and French Employees

Toray has worked closely with SOFICAR staff since its inception. When production was first being launched in the mid-1980s, 15 Toray engineers and technicians were stationed in France to work with local employees to ensure that initial production succeeded.

"This period was very important for us," Brisson recalls, "not only from a technical point of view, but since it was the first such contact between Japanese and French staff on a wide scale, it involved other issues besides engineering."

"As a result, all ideas and suggestions now are debated internally and finalised in specific working groups. Such a combination of French and Japanese ideas will be very fruitful in the future, and we are very keen to develop such tight co-operation together so that SOFICAR employees will be proud of being members of the Toray Group."

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## UK NEWS

FT writers assess the repercussions of the base rates rise

## Consumer spending fall the biggest worry

By Our Industrial Staff

NOT EVERYONE in British industry was weeping crocodile tears yesterday over 15 per cent base rates.

Rolls-Royce, the aero engine maker, for example, said that with £185m cash in the bank and no debt, the company stood to gain from higher interest payments on its investments. Also, it had few worries about the UK market since three quarters of its sales were overseas and, although higher rates might stabilise sterling, the company was "perfectly comfortable" with a rate of around £1.80 to the pound.

Rolls-Royce is not the only company which may benefit from higher income on its cash. Many other large groups, such as Vickers, the General Electric Company, and British Steel are highly liquid after several years of favourable industrial conditions, and in some cases asset sales.

Other big companies which may appear to be a poor position because of significant debts are in fact less exposed than they seem to be.

For example, Peninsular and Oriental Steam Navigation, the shipping and construction group, has around three-quarters of its debt in long-term fixed borrowings. P&O is also benefitting from two recent bond issues which effectively refinanced debt of £275m at lower rates.

Similarly, News International, Mr Rupert Murdoch's newspaper and publishing

group, has a debt mountain of £2.5bn, but three-quarters of it is in dollars.

Mr Colin Reader, News International's treasurer, said: "Taken in splendid isolation, the effect of the additional 1 per cent on base rates would mean extra financing charges of only £7m to £8m a year." What the group would lose in interest payments it would tend to recapture elsewhere through favourable currency movements.

However, all these companies will be hurt by the likely contraction in the market over the medium to longer term as the impact of higher interest rates bites on their customers.

P&O, for example, is already suffering a severe downturn in profits from housebuilding, one of the industrial sectors most exposed to fluctuations in borrowing costs. This is expected to worsen as a result of yesterday's developments.

The impact of higher interest rates on the construction sector was underlined by Wimpey, another leading housebuilder. Sir Clifford Chetwood, chairman and chief executive, said: "This is a serious blow particularly for housebuilders. It will not have an immediate effect on general construction as order books are very full and will take 12 to 18 months to work through."

"Higher interest rates, however, will affect new investment in commercial property.

Construction output could therefore be seriously reduced in 1991 if interest rates remain at this level."

The impact in the market place will be felt most severely by small to medium sized companies - the businesses on which much of the growth in the UK economy has centred in the last few years.

They are hit in every possible way. Most have borrowed to the hilt with bank finance, so a 15 per cent base rate feeds straight through for them into a 19 per cent real rate of borrowing. Their borrowing options are also more limited than their larger competitors, because they have neither the management expertise or the scale of turnover to borrow effectively overseas.

Additionally, they are the first to be hit by the a turnaround in the market. Many are already beginning to complain about a fall in orders both from consumers and from big companies to which they are suppliers. And when times get tougher big companies tend to screw them down by delaying payments to protect their own cash flow.

One graphic example of how big companies can dictate the future of their smaller counterparts, is the shipbuilding industry, where one big company relies on dozens, or hundreds of small outside suppliers, many of which largely depend on the yard.

For instance, Mr John Par-

ker, chairman of Harland and Wolff, the recently privatised Belfast shipbuilder, said the yard would have to be extremely careful in dealing with its suppliers because of the danger that some of them might collapse during the course of a shipbuilding contract.

There was a strong reaction from the electronics and engineering sectors. The Electronics and Business Equipment Association which represents 150 companies with combined sales of £400m said it would slow the rate of investment among its members and would not help their customers.

Mr Peter Sachs, the association's director, said: "This is hardly the recipe of growth that Japan uses."

The Engineering Employers Federation said: "The increase in base rates is regrettable, damaging to industry, but not unexpected. It will certainly add to business costs. The Government faces an intractable problem. High interest rates could reconquer inflation but at the cost of recession. Lower rates could maintain growth but at the cost of inflation. The federation is concerned that balance has moved too far to high interest rates."

Among the sectors where the higher interest rates will feed directly into tougher business conditions is retailing and the consumer industries, already under pressure from the squeeze on consumer spending.

The timing of the base rate rise, and the probable mortgage rate increase, could not come at a worse moment for retailers, which rely heavily on Christmas and the January sales for the bulk of annual profits.

Manufacturers of consumer equipment also responded with anger and dismay.

Mr Jim Collis, director-general of the Association of Manufacturers of Domestic Appliances, said: "Mortgage rates and the fortunes of our industry always go closely together. We have already seen a significant downturn in deliveries to the trade, and considerable problems in the industry. This is going to make the situation even more disastrous."

Package tour operators were also counting the cost. "If this latest increase leads to higher mortgage costs it will almost certainly hit demand for this winter and next summer," said one tour operator.

However, Mr Roger Heape, managing director of Intasun, said the four companies had to a certain extent anticipated the interest rate increase by cutting one million holidays from next year's programme. Even so, the latest interest rate increase would make it increasingly difficult for tour operators to attract early bookings for next year's holidays.

New car registrations fell by 10%, Page 18

## British consumer a tough nut to crack

By Patrick Harverson

THE BRITISH consumer is proving a tough nut to crack. Yesterday's rise in interest rates was the eleventh in succession, and although dealer borrowing has curbed spending in certain high-profile areas, it does not appear to have dented consumer confidence as much as the Government would have liked.

The latest official figures on UK gross domestic product, bank lending, the demand for credit, and personal income and savings suggest that the consumer's reaction to high interest rates has been slower than expected.

High interest rates have undoubtedly had the required effect in some areas.

Demand for homes has dried up and house prices have cooled, with some areas experiencing a fall. Hundreds of estate agents' offices have closed.

In turn, sales of do-it-yourself goods, hi-fi, kitchen appliances, furniture, curtains and carpets have dropped sharply.

Yet the pattern of recent expenditure shows that British consumers are spending more elsewhere, particularly on services such as holidays and travel, restaurants, entertainment and leisure. New cars also remain popular.

August saw record sales when the G registration appeared, and overall spending on vehicles was up 14 per cent in the second three months of this year.

That picture of spending suggests that British consumers are finding it difficult to give up the relatively luxurious items they learned to love during the recent consumer boom. The potentially fundamental change in spending habits is now proving hard to reverse.

Behind the sluggish response to high interest rates are several factors that point to continued consumer resistance in the face of dearer debt.

- Nominal incomes are rising faster than inflation.
- Employment continues to grow.
- Credit is increasingly available.

## Consumers spend more as savings ratio falls again

By Patrick Harverson

CONSUMERS saved less and spent more in the second three months of this year despite a fall in real income, according to figures released yesterday.

The savings ratio - personal savings as a percentage of disposable income - fell to 3.2 per cent in the second quarter from 5.1 per cent in the previous three months. The ratio stood at 4.4 per cent in the second quarter of 1988.

Analysts said the figures provided further evidence that consumer spending remained relatively strong in spite of high domestic interest rates.

Last week official data showed that British consumers were granted a record amount of new credit in August.

In the second quarter of this year consumer expenditure, adjusted for inflation, increased by 1.4 per cent to a level more than 5 per cent higher than at the same stage in 1988, the Central Statistical Office (CSO) said yesterday.

At the same time, personal disposable income, after allowing for inflation, fell by 0.5 per cent, partly because of a sharp drop in income from company dividend payments.

Dividend payments in the first quarter of this year were higher than forecast. It was to be expected that companies would not maintain the same level of pay-out in the second quarter.

Although real income fell in the second quarter, actual wages and salaries rose by 2 per cent and are now 10.2 per cent higher than the same period in 1988.

Mr Kevin Garthwaite, an economist with Watling Securities, said the fact that wages have been rising faster than inflation had allowed consumers to spend more. He said: "The backlog of support for consumer spending has always been real wages; consumer confidence has remained intact because high interest rates do not impinge on real wages."

The CSO figures also show a sharp drop in the amount saved in the personal sector in the second quarter.

The Ford manual workers to seek substantial pay rises

By Michael Smith, Labour Staff

LEADERS OF Ford manual workers yesterday increased the pay pressure on employers when they said they would be seeking percentage wage rises in double figures as well as a cut in the working week and improved holidays.

They indicated, however, that they were prepared to talk about the two-year deal the company wants. Mr Jack Adams, negotiator for the TGWU general workers' union, said the length of the agreement was negotiable, provided the unions could obtain "the right guarantees" against inflation rises.

The Ford pay settlement traditionally sets the pace for other pay deals in the engineering sector. The talks are being watched with particular interest this year because of the Government's concern about the inflationary effect of

the recent high level of pay settlements.

In their 31-page submission to the company the unions pressed for a "substantial" wage increase, saying the 32,000 workers they represented should overtake the Jaguar workforce as the best paid in the UK car industry.

"The average production worker, the earnings gap is currently a staggering 254 a week," they said.

The last deal at Ford, negotiated 18 months ago, after a two-week national strike gave manual workers a 7 per cent rise in the first year and an 8.9 per cent rise from last November. Both increases, in the wake of the first national strike for more than a decade, were widely regarded as setting the pace for other pay settlements.

## Lawson eschews 'games', but faces the fallout

MR Nigel Lawson, Britain's Chancellor of the Exchequer, put a characteristically brave face on it. In a hectic series of television and radio interviews last night, the Chancellor resolutely cast the latest rise in base interest rates as part of a general European move to ensure that no risks were taken with inflation.

He also insisted that he had always preferred to be "straight" with the British people and do what was best for the economy rather than to play "silly, political games."

Mr Lawson, however, will find it hard to escape the

uncomfortable political fallout from the latest increase in borrowing costs when the Conservative party gathers for its annual conference in the north-west resort of Blackpool next week.

His reputation as an indispensable architect of the Government's economic success - which has already been tarnished by the surge in the inflation rate and successive rises in borrowing costs - has received another substantial blow.

The contrast between the present gloomy mood among many MPs and their ecstatic applause 18 months ago when

Mr Lawson unveiled his radical tax-cutting budget could not be much starker. Mr Lawson himself admitted that the timing of yesterday's move was "extremely awkward."

The Chancellor's relationship with Mrs Margaret Thatcher, the Prime Minister, which has been tense since last year after differences over exchange rate policy and Britain's approach to full membership of the European Monetary System, may also be further strained.

After the 1988 Budget, Mrs Thatcher described Mr Lawson as "brilliant." Now relations between the two Downing

Street neighbours are said by those around them to be cool.

While both are now in complete accord that the overriding priority is to get inflation down, the Prime Minister has always felt uncomfortable with rises in borrowing costs. Her view is that the victims are the Conservatives' natural supporters - those who have taken the Government's advice and borrowed to buy their own homes.

She can hardly relish the prospect of an increase in mortgage rates to their highest level since 1980 - particularly as she blames Mr Lawson's attempts last year to shadow

the D-Mark as at least partially responsible.

A quick straw poll among Tory MPs yesterday indicated grumbling and concern - heightened by the opposition Labour party's determined display of political moderation at its conference this week - but no suggestion that Mr Lawson's position as Chancellor might be under threat.

Mrs Thatcher could hardly sack him while the outlook remained so uncertain. Survey shows poll tax damage to Tory support, Page 10

Philip Stephens

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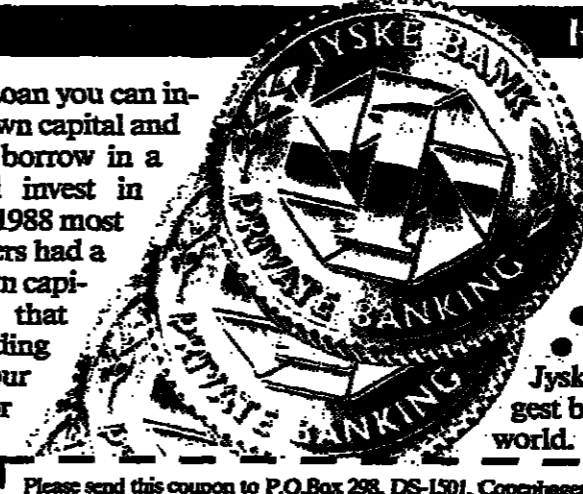
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FINANCIAL TIMES  
EUROPE 1 BUSINESS NEWS

## "NOW IT'S GRANDPA'S HOUR OF NEED, IT'S THE RAF BENEVOLENT FUND THAT DESERVES A MEDAL"

"Grandpa was admired for many brave acts, but he won his DPM for his part in the Battle of Britain. Now he's been in the worst himself, he says it's the RAF Benevolent Fund that really deserves a medal."

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## UK NEWS

# Survey indicates poll tax damage to Tory support

By Richard Evans

THE SCALE of the potential damage the introduction of the community charge, or poll tax, could have on the Conservative Party's electoral fortunes in key marginal constituencies is shown in the latest research published today.

A survey of the 50 most marginal Tory-held seats in England and Wales shows that opposition to the tax, due to replace domestic rates, (property taxes) next April, is growing, with 63 per cent of the electorate opposing it, against 54 per cent in 1988.

More significantly for the Tories, there has been a big swing against the tax and from the Conservatives to Labour among non-manual and skilled manual workers.

The survey, conducted among 1,019 voters by National Opinion Poll Market Research for the Local Government Chronicle, will fuel worries among Conservative MPs about the anticipated adverse impact of the poll tax. They have been seeking to persuade Mr Chris Patten, Environment Secretary, to provide extra funds to ease its introduction. Unease is expected to surface

at the Conservative Party conference in Blackpool next week, when Mr Patten and Mr David Hunt, the Local Government Minister, will be under pressure from party workers to ensure Tory marginals are not too hard hit by the proposed safety net payments to the hardest hit local authorities.

The LGC research, based on the latest available estimates of what the tax will be, shows that Labour would win 42 of the 50 seats - all the seats where it came second in 1987 and two where it came third. The 50 seats are spread throughout England and Wales. A significant number are in the Midlands and South-East which the Tories must hold to have any hope of retaining power.

The proportion of the electorate which would consider switching its vote specifically because of the poll tax is now 7 per cent, up from 5 per cent in a similar poll 18 months ago. More than half (52 per cent) felt the amount they would have to pay would be too high, compared with 39 per cent who said the amount was fair.

# New car registrations fall by over 10%

By John Griffiths

NEW CAR registrations fell by more than 10 per cent in September compared with the same month last year, providing a clear indication that the boom in UK car sales which has been almost uninterrupted since 1985 is at last faltering under the impact of the Government's monetary policy.

Statistics showing the fall coincided with the announcement of a further one point rise in base rates, reinforcing motor trade and industry expectations that new car sales will continue to weaken for the rest of this year.

The September drop in registrations, by 10.15 per cent compared with the same month a year ago, followed a record August during which more than 1/4m new cars were registered in a single month for the first time.

However, it was being suggested in some industry circles last night that the August figures overstated the true level of sales by as many as 100,000 cars, thus obscuring the fact that the long-expected market downturn was already under way.

The 100,000 figure was said by one large importer to be the likely number of cars registered by manufacturers and their dealer networks, but for which there were no buyers.

The practice is a relatively common one, employed by manufacturers who, for a variety of reasons, wish to boost their market share - the most common, if not necessarily accurate, yardstick of success.

Mr Simon Foster, Director of the Society of Motor Manufacturers and Traders, said the fall "was not surprising."

"The Government's monetary policy has already lowered demand for other consumer goods. The motor industry is still buoyant but cannot

remain immune from the trends in the economy."

Imports accounted for 59.94 per cent of the total market last month, up more than six percentage points on the same period last year. The motor industry's balance of trade deficit increased by 14 per cent in the first half of this year to a record £3.42bn.

Despite the September fall, the UK market still appears on course for a record for the fifth year in a row. Registrations in the first nine months of the year have reached 1,919,338, up 5.07 per cent on last year.

Base rate rise, Page 8

# Deutsche launches fund

DEUTSCHE BANK is making its long-awaited entry into the UK institutional fund management business with the launch on Monday of Deutsche Bank Capital Management (UK), writes Barry Riley.

Unlike several other German banks, Deutsche is starting from scratch rather than buying an existing company. "It would be perceived by the market as a sign of weakness if we could not do it ourselves," said Mr William Richards, who was hired from Sun Life Fund Management last April to set up the operation.

He subsequently recruited Mr Roger Bartley from Chase Manhattan Bank

as chief investment officer, fixed income, and another top position has gone to Ms Rosemund Price, formerly investment manager of Caviapen, advisers to the Civil Aviation Authority pension fund.

Initially DBCM-UK will promote itself to the UK subsidiaries of German companies, and to UK companies as a specialist manager of international bond funds and Continental European equity portfolios.

The bank's Frankfurt-based capital management operation controls portfolios worth a total of £28.3bn. The bank entered the UK unit trust market last July.

# M&S sets up equity plan

MARKS & SPENCER, the retail chain, said yesterday it was expanding its investment services by launching a Personal Equity Plan (PEP), the government scheme designed to encourage wider share ownership by providing tax-free concessions, writes John Edwards.

The PEP, which will be marketed as the Marks & Spencer Tax Free Savings Plan, will be linked to a new unit trust, the second launched by the group.

M&S introduced its first unit trust, the Investment Portfolio, last year, but it would not be a suitable vehicle for a PEP since it does not conform with the PEP regulations that at least 75 per cent of the fund must be

held in UK stocks.

The group has designed a unit trust, called the UK Selection Portfolio, which will invest solely in UK stocks. Like the Investment Portfolio it will be divided into three parts, run by separate fund managers: Barclays de Zoete Wedd, GMO Woolley, and Hill Samuel Investment Management.

As with the Investment Portfolio, the emphasis will be on providing a unit trust, with reduced risk, rather than seeking to be a top performing fund.

It will be aimed at tempting the modest saver into the unit trust market.

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For full details of Trade Indemnity's credit risk management services, please contact your broker, write to us at 12-34 Great Eastern Street, London EC2A 3AX, or telephone 01-739 9939.

After all, taking calculated risks is one thing. Walking through a minefield without taking precautions is quite another.



TRADE INDEMNITY

## LABOUR CONFERENCE

# Delegates vote down calls for review of electoral reform

By John Mason

LABOUR PARTY supporters of proportional representation suffered a serious setback after delegates at the annual conference in Brighton voted down calls for electoral reform to be considered by the national executive committee.

This followed strong warnings from Mr Roy Hattersley, the deputy leader of the opposition party, that PR would reduce genuine democracy while a debate on it now would prevent the party effectively challenging the Government in the run-up to the next general election.

Despite growing support for PR within the party and a record number of resolutions on the issue submitted to this year's conference, delegates voted by 4,592,000 to 1,443,000 (majority of 3,149,000) against setting up a working party of the National Executive Committee, the party's leading policy body, on electoral reform to report back with specific recommendations next year.

Mr Hattersley said setting up a working party would leave it open to charges in the press that it had given up hope of winning under the current system.

Newspapers would write about little else except electoral reform and possible pacts when they should be writing about Labour's opposition to high interest rates, National Health Service reforms and the poll tax.

He insisted that proportional representation would diminish, not increase, genuine democracy. Small centre parties such as the Democrats, Greens and the SDP would maintain the balance of power.

To form a government, Labour would have to bargain away its manifesto in smoke-filled rooms.

"I do not say that we would never have a Labour government again. But we would never have a Labour government that was able to carry out a Labour programme - even when that programme had won more votes than any of the alternative manifestos. That is a funny sort of democracy."

Mr Hattersley said that at the next election voters would have a clear choice between the Labour and Conservative parties.

To blur that choice with the promotion of minor parties - with no clear ideology, no clear programme and no clear purpose for their existence - would be an act of historic folly, he said.

But Mr Jeff Rooker, MP for a Birmingham constituency, said that the present system led to selective dictatorship. Parliament had been corrupted and the current government had reversed social reforms, widely thought to be permanent, on the basis of only 42 per cent of the popular vote.

The country's present first-past-the-post system meant wasted Labour votes in rural areas. The only votes that effectively mattered were those in targeted marginal seats.

He denied the calls for electoral reform were based on defeatism. The resolutions on the issue - totalling over 40 - had been submitted after Labour's successes in the European elections and opinion poll gains.

# Doubts over football club buyer

By Ian Hamilton Fezzy

OWNERSHIP of Manchester United Football Club became more confused yesterday when Mr Martin Edwards, the chairman, sought a court injunction against Mr Michael Knighton, the property dealer to whom he sold 50.06 per cent of the club's shares for about £10m last month.

Mr Edwards claimed that Mr Knighton had "broken a confidentiality clause" in their agreement by allowing financial details to "be seen by other would-be purchasers of the club".

The court hearing in Manchester was adjourned until Monday.

Mr Knighton, who is reportedly seeking help in raising the money to complete the takeover, reacted angrily to news of the court proceedings. "There is no question of breaches of confidentiality," he said. "If I have to advise potential investors, how can I do so except by letting them see details of the company?" he said.

Mr Knighton insisted that his takeover was going ahead, in spite of speculation that he is trying to sell at a profit his agreement to buy the shares from Mr Edwards.

Mr Owen Oyston, the north-west property and local radio millionaire, emerged yesterday as Mr Knighton's likeliest financial backer.

He has had talks with Mr Knighton but - because of family interests in Blackpool Football Club - has had to apply to the Football League for permission to obtain a financial interest in Manchester United.

League regulations say no person can hold more than 10 per cent of shares in a second club without the consent of the management committee.

# Oil groups resolve pipe dispute

By Steven Suffer

MOBIL, the US oil company, is set to build a North Sea gas pipeline worth more than £200m after UK government intervention in a dispute between Mobil and Marathon, a subsidiary of USX, formerly US Steel, over which company is to build the line.

Mr Peter Morrison, the Energy Minister, has approved in principle that Mobil should build 30 inch diameter, 210 mile pipeline from its Beryl field to St Fergus in Aberdeenshire, where a processing plant is to be built.

Mr Morrison gave the companies until last Friday to come up with a proposal for a single pipeline to serve the Mobil-operated Beryl field and the Marathon-operated Brae field, which are in neighbouring North Sea quadrants. Government policy has been to avoid a proliferation of pipelines in the North Sea, but two years of talks between the companies had failed to produce an agreement.

Pressure to reach a deal appears to have heightened last month when Mobil signed a contract with British Gas to begin gas deliveries from Beryl in October 1992. Beryl has been producing oil since 1976, but has been re-injecting gas into the reservoir to maintain reservoir pressure. The field is estimated to have 1.3 trillion (million million) cubic feet of gas.

Marathon has yet to sell the gas from Brae. Under terms of the agreement between Mobil and Marathon, Marathon is granted an option to take a 50 per cent interest in the pipeline by August 1990. Should it fail to exercise the option, it would pay a penalty of £2m.

Mobil said it would proceed immediately with plans to build the line.

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## TECHNOLOGY

## Reading the meter by remote control

A NEW way of reading domestic gas meters from the street without going into customers' homes is having its first UK trial in Leicester.

British Gas is fitting 1,000 houses with meters incorporating a US-made remote reading system based on short-range radio transmissions.

Each meter has a low-power transmitter. When the reading van drives past the home, it sends out a "wake up" signal (at 902 MHz). The meter responds by transmitting its reading to a computer in the van using a "spread spectrum frequency hopping" technique between 910 and 920 MHz.

The frequencies used are in the region of the spectrum allocated to mobile radio communications in the UK. The transmissions will not affect TV or radio reception or interfere with electronic equipment.

The AccuRead system was developed by Inscan, a subsidiary of Diversified Energies based in Minneapolis. Another subsidiary, Minnegasco, the Minnesota gas distribution company, is one of four US gas utilities installing the system on a large scale. Atlanta Gas Light has signed a \$25m contract to buy 500,000 units.

Inscan says that in the US one van, driving systematically around residential districts at normal traffic speeds, can read 24,000 meters in a single eight-hour day, compared to 250-400 for the traditional way of reading meters on foot. Another advantage is that the utility does not have to send bills based on estimated readings.

Barry Reynolds, British Gas accounting services director, says that he is keen to introduce radio-based reading quickly to more of the company's first customers. But the timing will depend on analysing the results of the three-month Leicester trial and, if the terms of a large-scale contract with Inscan. The British Gas choice of Inscan for its remote reading trial is a blow for alternative systems which use the telephone network for the same purpose. The latter are proving popular with US water and electricity companies.

Clive Cookson

Few acts in the production of the new Opéra de la Bastille in Paris have started on time. There is a long way to go before the fat lady sings.

The history of the Opéra de la Bastille needs a brief programme note. In 1982, François Mitterrand had an idea for a new popular opera house at the Place de la Bastille which would open on the bicentenary of the French Revolution. The Canadian architect Carlos Ott was awarded the contract and work went swimmingly until 1986, when Mitterrand's socialist lost an election and Jacques Chirac became Prime Minister.

Chirac thought the project was an expensive *folie de grandeur*. Two elements of the design, the scenery workshops and the modular auditorium, were delayed for two years on cost grounds. Daniel Barenboim was invited to be musical director.

In 1989, the socialists were back, and Pierre Bergé, head of Yves Saint-Laurent's fashion empire, dismissed Barenboim. A South Korean pianist and conductor, Myung Whun Chung, took his place.

The 192.5m (\$348m) building opened for a gala performance on the eve of the bicentenary, July 12, only to close again until next spring. The opening date and first production are to be announced this month.

The scenes which have unfolded at the Opéra Bastille have been dramatic - to say the least. But now attention is focused elsewhere. Why is an unscheduled interval holding up the last acts? Cast your eyes to the scene-changing technology.

"Designed with so many technological firsts from many different fields, so many ultra-modern facilities to help the director... this opera house is a precursor to a whole new generation of dedicated lyric art theatres," says L'Usine Nouvelle, a French construction magazine.

The public association for the project, the Etablissement public de l'Opéra de la Bastille (Epob), is also trumpeting the innovations, while admitting that the ambitious dimensions of the project have caused construction problems.

The opera's vital statistics are impressive: 150,000 square metres of floor space, four auditoria, six stages, and a rehearsal stage which is identical to the main stage (as has Glyndebourne).

Within these dimensions, Epob has chosen to incorporate

## An ingénue takes the title role

Rachel Johnson goes backstage at the Opéra de la Bastille in Paris to see the mechanics of a modern opera house

technology which is usually only used by the oil, equipment handling, lifting, computer and telecommunications industries - making the opera house a showpiece for "technology transfer."

Philippe Bijé, project manager at EMH - a company specialising in dam valves which is building the stages - likens the project to a "large industrial assembly" with its "unique combinations of technologies." He says that "what is unusual is the amount of automation in the scene-changing, and its size. It will take time for the installations - such as the custom-made integrated communications system by Spie Trindell - to operate perfectly."

Olivier Klementieff, assistant to the opera's technical director, Jean-Michel Dubois, explains that the opera is waiting for the principal stage elevator. EMH will not discuss the problem, but Klementieff reveals "it works, but not surely or safely enough."

The elevator is a lynchpin of the project and its failure to work has slowed progress. The elevator, which raises and lowers the podiums for all six stages, is built by De Dietrich, a company which specialises in the machinery to load and unload jumbo jets. It is supposed to manoeuvre the podiums quickly, silently and smoothly, so scenery can be changed out of the audience's sight. The main stage is surrounded by the five secondary stages and can revolve on a turntable as well as descend to allow for quick scene changes.

The automatic controls which manoeuvre the podiums so that they sit flush with the loading platforms on either side are not working accurately, there is a four degree

tilt, and a gap of a metre between stage left and right on the bottom level.

This is a problem which has important safety implications, says Klementieff. Alignments have to be precise to the exact millimetre. Otherwise the scenery (which is up to 12 metres high) could topple over. Semi-automatic wagons, used to carry scenery, should skate over the stage floors. With gaps, they cannot.

The opera house is on the site of an old railway station within storming distance of the old Bastille. Several successful innovations have resolved difficulties initially caused by the opera's location.

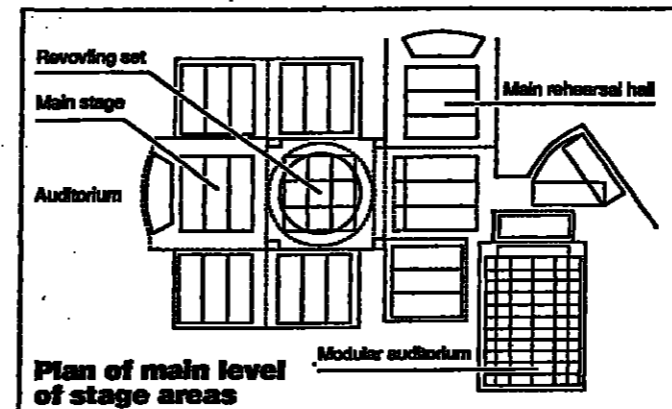
Spie Batignolles, the engineering and construction group, made a waterproof tank to separate the foundations from the watertable with 18,000 square metres of moulded diaphragm walls.

The Centre d'Etudes des Tunnels and Recherche Séismologiques took measurements of noise (especially Metro vibrations) so that contractors could lay down acoustic joints between the moulded walls and the main auditoria.

The acoustician Helmut Müller and his team built a computer model to identify the pattern of acoustic vibrations in each part of the main auditorium. They used a scale model of the hall and its materials, pear-wood and Lamehin granite laid like corduroy.

The Bastille crew is hoping the acoustics will turn out to be sufficiently clear for no amplification to be necessary for most productions. But they are charting unknown territory. "With the classic 19th century opera house, made with wood, you can't go wrong," says Klementieff.

Using the model auditorium,



sound engineers were able to pinpoint which areas of the main auditorium were best served for acoustics. The seats in those areas will be the most expensive. But even the cheaper ones will benefit from the auditorium design which, unlike the old Palais Garnier, has not a single blind seat out of 2,700. The Garnier, which the Bastille is replacing, has 400 blind seats out of 2,000.

Michèle Andon, general manager of Epob, calls it an "intelligent opera house." The technology used at the Opéra de la Bastille is being copied by those involved in upgrading existing theatres and designing new ones.

Spie Trindell, which was responsible for the control system in the Caracas subway network, has installed that in the fly tower above the stage. Using computers, technicians can change the scenery by remote control. The lighting for a show can be programmed into the computer during rehearsals. Everything -

grids, main and rehearsal stages, curtains, podiums, lighting bridges, even props that move or fly - is run by 225 intelligent control drives and three computers.

When the elevator is sorted out the Opera can open officially. Only then will the opera buffs' critical scrutiny of the revolutionary auditorium design and acoustics start in earnest. Audiences at July's galas gave them a mixed reception: "good" to "too metallic."

Nicholas Snoman, general artistic director of the Royal Festival Hall, says the singers had to be very careful where they directed their voices; but he was appreciative of the orchestra pit - which can be lowered out of sight and covered over.

"The modular auditorium without a proscenium arch is the most unusual feature to my mind," he says. "Given the project has been bedevilled with management problems, they have got an awful lot right."

## How satellites have come down to earth

The International Telecommunication Union, the United Nations' specialist agency for telecommunications, opened its doors in Geneva this week for the First World Electronic Media Symposium and Exhibition. The focus of the event was on satellite communications, with a bias towards software and lobbying.

The symposium covered three areas: policy, legal and technical. For the most part, the subjects related to satellite broadcasting.

Those attending ITU's Telecom exhibition in 1987 witnessed the power of the satellite but saw only limited software. The unanswered question was how the satellite would be used.

Satellites mean big money for owners and operators from consumer and business applications. For the consumer the important innovation is High Definition Television (HDTV), which brings cinema quality television into the home, but where the standards are not yet universal. The Japanese favour a 1125 line/60Hz approach, while Europe is looking towards a 1250 line/50Hz solution with an temporary period of compatibility with European television standards.

To reinforce their position the Japanese mounted a combined effort to show off the current state of their art, companies exhibiting included Sony (now the owner of CBS Records and Columbia Pictures), Canon, Fujitsu, Sanyo, Toshiba and Matsushita.

In the policy and technical areas, all contenders in the standards race (including the Soviet Union) presented their arguments in favour of their particular system.

Satellite sound broadcasting (SSB) also received a boost with the reappearance of the European Broadcasting Union's mobile demonstration of the combined French/German development for receiving compact disc quality stereo radio in a car.

Like HDTV, SSB is slated to be on the agenda of a World Administrative Radio Conference, possibly in 1992, when

definite frequencies could be allocated to both services. But before then certain technical problems need to be resolved and the systems proven viable.

Television and sound broadcasting for the 21st century were items for two of the technical symposium's four days, while HDTV will be granted a special session tomorrow.

The exhibition also provided a forum for high quality satellite voice and data communication. Scientific Atlanta announced a \$25m contract with Chile's telephone company CTC for 143 earth stations making up a C-band, digital voice network. Jack Acker, president of international satellite communications at Scientific Atlanta, claims it is the largest contract for a digital satellite network ever awarded.

The contract calls on the company to supply 43 large terminals, with dishes 4.5 to 11 metres in diameter, and 100 small aperture terminals with 1.8m plastic dishes. The terminals will work to the Pan-American satellite which covers both North and South America. Telephone charges to the consumer will be lowered as a result of the network.

The first two stations, at an altitude difference of 5,000 metres but only 125 miles apart, have already been completed. The rest of the network is scheduled for completion in the next 12 months.

"Further services," said Acker, "such as image transmission, can be added later when they are required."

Acker also announced that Scientific Atlanta has received a \$7m contract to supply a digital satellite link between Gabon and France. "We've already installed the inter-city link within the country. Now we've supplied the link to the rest of the world."

While EC ministers in Luxembourg were laying up their own agreement on transborder communications, delegates at the legal symposium in Geneva were discussing the financing and legal aspects of such transmissions.

Paul Godden

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## MANAGEMENT

Five years ago, quality at Sony's television plant in Bridgend, Wales, was a "disaster": 30 per cent of components were rejected. Now the reject rate is 0.29 per cent, says John Hoskins, component quality manager.

Similarly, four years ago, Bridgend used to stock components equivalent to 51 days of production; now stocks average 17 days. "We're asking people to deliver to a 9.30 am slot; previously we would say any time this week is OK," according to David Vickers, Bridgend's procurement manager.

When Bridgend opened in 1973 as Sony's first factory in Europe, it was a rudimentary screwdriver plant importing most of its components from Japan. For a decade or so, it struggled to improve quality control and inventory performance. But now it is a model of what the Japanese electronics group hopes to achieve elsewhere in Europe.

An illustration of the problems Sony faced in the early days was that it could not find a British supplier of plastic mouldings, so it imported most of them from West Germany. In the intervening years, however, it trained Otford, a Welsh supplier of boxes, to make the necessary components. This, in turn, provoked the German supplier, Ninka, to set up a plant in Wales.

Hoskins describes Sony's philosophy for improving quality as: "Rather than wait for poor product to hit us, influence the way it is made."

The company promoted "zero defect" projects at its suppliers by sending in its quality controllers to monitor production. It adopted this approach not only with small suppliers like Otford but even with top electronics groups like Philips of the Netherlands, which is a major source of semiconductors and other electrical components.

The transformation in quality and inventory performance has also been achieved by Sony's decision to make picture tubes, its most important component, in-house. It set up a second plant in Bridgend in 1982 and, as a result, local content of television production there - defined as the percentage of material costs of European origin - is now between 84 and 92 per cent.

These initiatives have aided Sony in its struggle to improve efficiency. It is easier to cut down on faults if components are made in-house or by suppliers with which there is a close relationship. Just-in-time manufacturing can only become a reality if suppliers are close enough to deliver at short notice.

If Bridgend is the model for Sony's aspirations in manufacturing, Sony Broadcast and Communications at Basingstoke, Hampshire, fulfils the same role in research and development.

SBC, which has annual sales of £200m, was set up 11 years ago as a centre to develop and sell products to the broadcasting industry, largely by hiring engineers from the UK broadcasting establishment. The recruitment of such "insiders" has helped Sony achieve a dominant share in supplying equipment to Europe's broadcasters.

Although there were initial cultural and communications problems in get-

## Pulling back from a quality disaster

Hugo Dixon describes the significance of Sony's transformation of its Welsh manufacturing plant



Hiro Nakamura: first infrastructure, then R&D

ting British and Japanese researchers to work together, perseverance paid off and Basingstoke has now become an important centre for broadcasting R&D.

It was an integral part of the group's research effort in the early 1980s and culminated in the development of the digital video tape recorder. The Basingstoke engineers produced one standard; the Tokyo engineers produced another. Eventually, Sony decided on the British approach, which has since been adopted as the world standard.

Bridgend and Basingstoke are the jewels in Sony's European operations. Its six other factories - which make TVs, compact disc players, video recorders and magnetic tape - are only assembly plants and most are in the early stages of building up relationships with local suppliers.

Sony, however, has ambitious plans for its European operations, which would involve repeating the success of Bridgend and Basingstoke in other countries and product areas.

This expansion programme is partly driven by a judgment that it can respond more quickly to the European market if all aspects of the product cycle - research, component manufacture, design, assembly and marketing - are carried out locally. It is also influenced by political pressure, principally from the European Commission,

for all Japanese manufacturers to step up the local content of their products.

On the manufacturing side, Sony expects to invest several hundred million dollars over the next three years in setting up a European network of components factories to serve its assembly plants.

"The next step is very important - to have an infrastructure of component supply," says Hiro Nakamura, head of this policy was the appointment of Tjalko Schuringa, head of the European Commission's telecoms division, to spearhead its thrust into telecoms.

It is now looking for local scientists to run a string of small research laboratories, each with about half a dozen employees. Schuringa explains that "many of these (European) programmes are networks of scientists, (who say): 'I know you personally, I may let you in.'"

And Nakamura explains that the process of putting down local roots is dynamic. The more Sony commits itself to Europe, the more its operations take on a life of their own.

"Once the engineers are there, they won't sit and just go on doing the same thing. I want to trigger them to make a new, better, lighter picture tube. Once we have the basic engineering capability, we can do anything."

drums for video-recorders; and one making optical pick-ups for compact disc players. Most of these components are now imported from elsewhere in the Sony group.

As well as setting up component plants, Sony plans to rationalise its existing assembly factories. The eventual goal, says Jack Schmuckli, chairman of Sony Europe, is to have no more than two assembly plants for each major product and never in the same country.

This partly stems from a calculation that its political clout will be greater if it spreads its investment around Europe instead of concentrating it in one country. It is also influenced by a feeling that there are more likely to be industrial relations problems if a factory has more than 2,000 employees, but that, if production is split between more than two plants, it misses out on economies of scale.

An implication of this policy is that Sony's TV assembly plant in Stuttgart, where labour costs are high, will probably be converted to manufacture new higher value products such as robotics. TV production will then be concentrated in Bridgend and Barcelona, Spain.

The main reason for setting up local R&D facilities is that Sony believes this is the best way of getting access to closely protected markets.

Its priorities are high-definition television (HDTV) and telecoms, where European companies are aiming to regain world leadership via a series of collaborative research and development projects. These will set the technical standards for future systems, so Sony fears it will be at a disadvantage unless it can join in the research effort.

A study Sony commissioned from BIS Mackintosh, a UK electronics consultancy, earlier this year said it was difficult but not impossible for the Japanese company to get such an inside edge. The main problem was that collaborative projects required a track record in Europe, which Sony did not yet have.

Repeating the SBC experience, Sony therefore aims to recruit top people who are already insiders. The first fruit of this policy was the appointment of Tjalko Schuringa, head of the European Commission's telecoms division, to spearhead its thrust into telecoms.

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Previous articles on Sony appeared on October 2 and 4.

## A 'brutal' financial climate

The chairman of Jungheinrich's UK operations tells Nick Garnett why foreign companies enjoy an easier environment

West German managers working in the UK will have differing views of Britain's current trade deficit treadmill. Many may well be delighted, of course, particularly as the UK's biggest trade deficit is with West Germany.

But one German who has worked in Britain for 20 years and whose company has supplied capital equipment to thousands of British organisations is not. Bob Bischof is in no doubt that a lot of the hand-wringing in Britain about the deficit misses what he sees as the central point.

The financial environment in which British companies have to work is now so brutal, says Bischof, that "it is not conducive to their defending market share, introducing new products or adapting to a changing, very competitive industrial world. German managers have an easy life compared with their British colleagues."

These about the harsh financial realities for public companies operating in Britain are hardly new. Neither are some of the arguments put forward by 45 year-old Bischof, chairman of the UK operations of Hamburg-based fork-lift truck maker, Jungheinrich: loan financing through banks in the Germany of bulging trade surpluses as against equity financing in the UK; short-term profit maximisation as the main goal of British companies compared with longer-term planning in Germany; some 500 stock market listed companies in Germany, but 5,000 companies on the London stock exchange; supervisory boards in Germany often containing representatives from main customers and banks as against the arms' length "control" of UK companies by the institutions.

It might also seem a little disingenuous for Bischof, an economics graduate from Hamburg University, to say all this. After all, Jungheinrich imports into but does not manufacture in the UK. Also, Jungheinrich itself has not been free from speculation about it being taken over - one of the features of British business life which in its hostile form Germans find unappealing.

At the same time Bischof's sales are solely dependent on British companies remaining

competitive and re-investing in equipment.

He thinks that it is easier to pinpoint problems caused by the financial environment in Britain now that so much else is easier. Unions are easier to handle, he says, total wages and social benefits are lower, funding for start-up companies is easier, and there is less red tape.

Profit maximisation works in retailing and in service industries like distribution mainly because these industries are free from foreign competition. It certainly does not work for manufacturing. If the financial scenario of your main competitors allows them to take a long-term view while you look at the next six months only, you are dead and buried unless you change."

The recent spate of takeover battles has highlighted this issue further, he says. "A company in the food industry on Britain's east coast had virtu-

ally all investment stopped for six months while its parent company fought off a hostile takeover."

When the battle was eventually lost, the new owners stopped all new investment including such mundane things as replacement cars and fork-lifts - to show a good balance sheet, to fulfil the promises of the takeover prospectus and to sell the company on to someone else.

"Twelve months' investment delay was the minimum result in this case, market share lost, new product development stopped. The macro-economic damages of this and similar takeovers are incalculable."

But have not some hostile takeovers been helpful to the companies that fell victim? Bischof says some obviously have though in many cases West Germany's banking system and the corporate supervisory board system generally prevents companies from being in a position where they would benefit from being taken over, particularly from a predator

that knows nothing about the markets to which the victim company sells.

"If the UK were a nation of shopkeepers Hansen would be the OberShopkeeper. He buys and sells companies. There are no Hansons in Germany and there does not seem to be any need for them."

Bischof says the somewhat stodgy German system is far from ideal but the British take-over scene should be modified to make it closer to it. "At the moment it is like a 100 metres sprint against a 1,500 metres runner. Britain has the entrepreneurial, creative culture which produces all these shooting stars but they are frequently overtaken by foreign companies which can pace themselves."

He makes some suggestions for changes to the UK's take-over and merger rules, particularly with reference to the need for predators to give the target company's shareholders only a profit forecast for the existing financial year or a maximum of twelve months.

"Nothing can really be achieved in twelve months. All one could achieve is to massage balance sheets by cutting corners. If the rules were changed to force the predator to supply profit and turnover plans for the next three years and to prove to the Managorities Commission its intention to increase the market share of its products, you would probably see hostile takeovers reduced to 50 per cent of their present levels. Many more manufacturing companies would be able to take a longer term view."

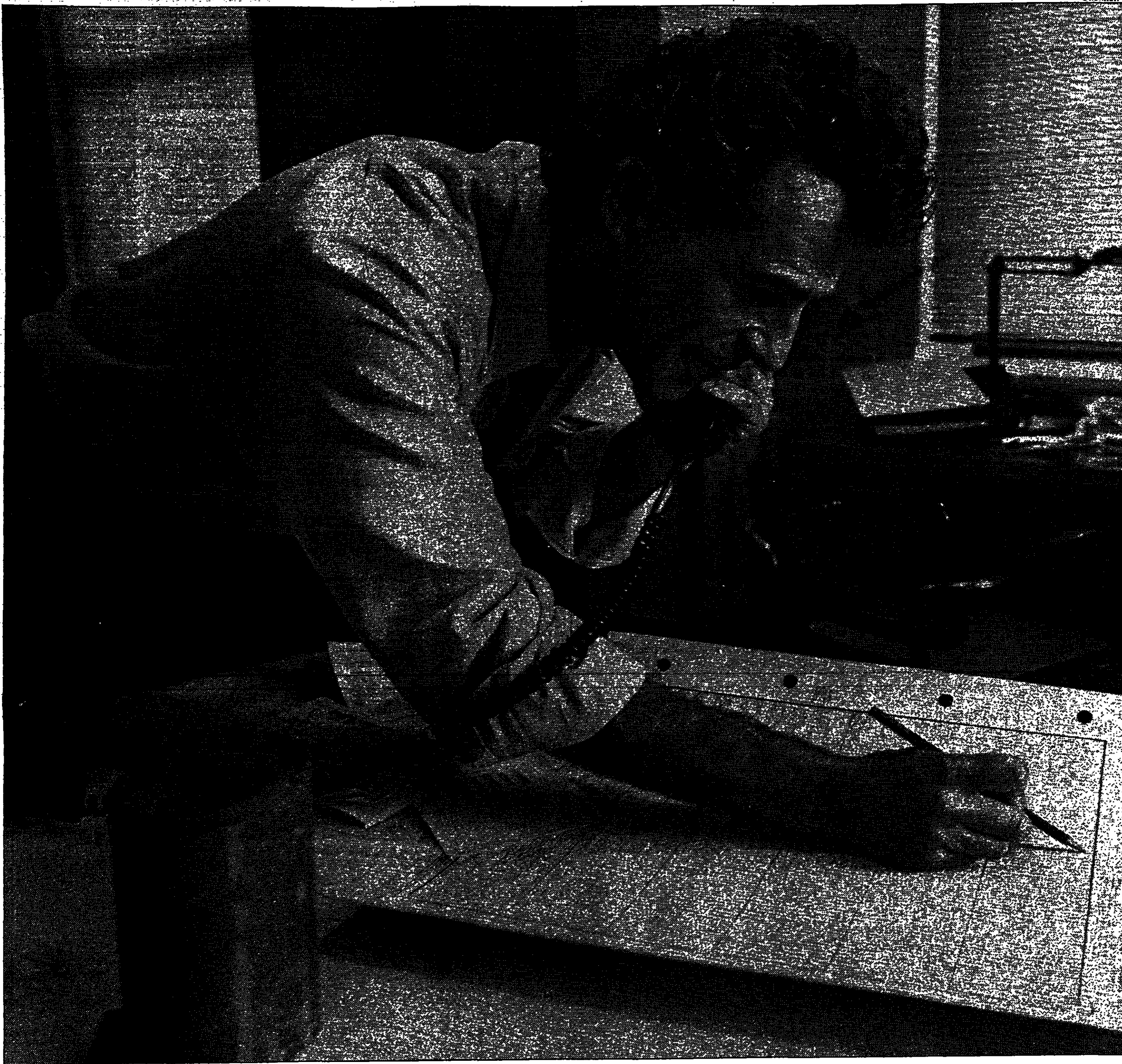
The eventual harmonisation of financial services in Europe should remove some of the "wild west" elements in the financial framework British companies have to work in. "The Germans will surely not agree to the British system," and vice versa. So maybe a sensible compromise could be worked out in the end."

Bischof is scathing about economic commentators who say the UK's trade deficit does not matter. "Of course it does. Every country in Europe is booming. Imports are a function of home demand and so Britain should be exporting hell for leather. If we cannot export in this environment then when European economies cool off a bit we will be in deep trouble."

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## ARTS

## Arts Week

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## MUSIC

## London

Royal Philharmonic Orchestra performing Bizet, Ravel, Verdi and Tchaikovsky. Albert Hall. (Sun) (562 7711)

Orchestra of the Age of Enlightenment conducted by Sir Charles Mackerras, with Lynne Dawson (soprano), Anthony Rolfe-Johnson (tenor), David Wilson-Johnson (bass). Haydn's Creation. Queen Elizabeth Hall (Wed).

Paris

Quatuor Ravel. Schoenberg, Beethoven. Ensemble Mosaïque conducted by Christoph Coin. Haydn. Both concerts Monday at the Théâtre des Champs-Élysées (47203637).

## THEATRE

## London

Anything Goes (Prince Edward). Cole Porter's sally ocean-going 1930s musical has four or five marvelous songs and Elaine Paige falling to emulate Ethel Merman. Jerry Zals's desperately bright production comes from the Lincoln Center in New York and is undemanding summer-time fare (734 8861, cc 836 2426).

A Flea in Her Ear (Old Vic). Fey-deau's farce in the John Mortimer translation spiritedly done as German Expressionist nightmare by Richard Jones and the Quay Brothers, the directing and design team on WNO's *Love of Three Oranges*. Jim Broadbent leads good cast as the discomfited insurance manager and his doppelgänger, a drunken hotel porter. An interesting, enjoyable, unfairly derided experiment (528 7616, cc 240 7200).

The Master Builder (Barbican). Magnificent RSC revival of Ibsen's late poetic drama of lies, deceptions and marauding sensuality. John Wood is the first great Schless since Redgrave, then Olivier, played it in London. Adrian Noble directs. Richard Hudson's tilting roofs chart the aspirations and final dramatic plunge. (638 8891) Oct 6-10, 16-19, 25, Nov 1, 2.

The Tempest (Barbican). John Wood's other great performance this season with the RSC is his Prospero in Nicholas Hytner's production, a towering, imperious, imperious impresario whose magic is an instrument of both revenge and resolution. (638 8891) Oct 11, 12, Oct 20-24, Oct 30, 31.

François Le Boux with Irwin Gage (piano), Hahn, Duparc, Poulenc, Debussy (Tue). Auditorium des Halles (40328238).

Orchestre National de France with soloists. Beethoven, De Castillon, Chausson (Wed). Auditorium des Halles (40328238).

Barbara Hendricks (soprano) with Maria Jose Pires (piano). Schubert, Mozart (Wed 8.30). Théâtre des Champs-Élysées (47203637).

Orchestre de Paris conducted by Semyon Bychkov, with Maurice André (trumpet), Bach, Schnittke, Haydn, Prokofiev (Wed, Thur). Salle Pleyel (45630795).

## Versailles

Centre de Musique Baroque evokes 1789, the crucial year, by music in Versailles until November 25. There will be the opening of the states general, symphonies dedicated to Marie-Antoinette and a concert given over to her harp music, works by the Italian in Versailles and an evening of music of the Trianon Palais. Tickets to be bought at the entrance to each of the concerts.

## Vienna

Tokyo Philharmonic Orchestra conducted by Tadaaki Otaka.

Takemitsu, Schumann, Shostakovich. Musikverein (Sat). Philharmonisches Collegium conducted by Shao-Chia Lu. Lin, Schumann, Stravinsky, Grieg, Elgar. Musikverein (Sun). Elisabeth Leonskaja (piano). Prokofiev, Shostakovich, Musorgsky. Konzerthaus (Mon).

## Berlin

Berlin Philharmonic Orchestra conducted by Paavo Berglund, with Shlomo Mintz (violin). Haydn (Sat.). Philharmonie.

Tamara Orchestra from Zurich conducted by Hiroshi Wakasugi, with Dmitry Sitkovetsky, Tchaikovsky and Shostakovich (Mon). Philharmonie.

## Frankfurt

Frankfurt Radio Orchestra conducted by Eshahu Inbal, with soprano Arleen Anger. Ravel and Tchaikovsky (Fri). Alte Oper.

## Rome

Chiesa di S. Maria Sopra Minerva. The Clemencia Consort of Vienna conducted by René Clemencic playing Guillaume de Machaut's Notre-Dame mass (Wed) (583394).

Teatro Ghione. The young Russian violinist Vadim Repin, playing Bach, Brahms, Tchaikovsky, Shostakovich (Mon).

original a decade ago emphasises the descent into madness of Bob Guntton as the domineering father of Fleet Street (239 6200).

Lead Me a Tender (Royal). A sprucling up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Jacques Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Remembrance (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically felicitous (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as weapons rather than emotions (239 6200).

Les Misérables (Broadway). The

Chausson and Ravel, with pianist Irina Vinogradova (Mon) (63.72.294).

## Milan

Teatro Alla Scala. Soloists from the Berlin Philharmonic playing Mozart, Verdi, Richard Strauss and Schoenberg (Mon) (80.91.26).

## New York

Carnegie Hall. The first week of the new season features the San Francisco Symphony conducted by Herbert Blomstedt with Cho-Liang Lin (violin) in a programme of Schumann, Berg, Beethoven (Tue). (247 7800).

## Washington

Warshaw State Opera conducted by Sir Yehudi Menuhin, with Robert McDuffie (violin). Mendelssohn, Bruch, Lutoslawski, Haydn (Wed). Kennedy Center Concert Hall (467 4600).

National Symphony Orchestra conducted by Peter Maag with Michael Block (piano). Mozart (Wed, Thur). Kennedy Center Concert Hall (467 4600).

## Chicago

Chicago Symphony Orchestra conducted by Günter Wand. Bruckner programme (Thur). Orchestra Hall (435 6666).

magnificent spectacle of Victor Hugo's majestic sweep of history and patches brings to Broadway lessons in pageantry and drama (239 6200).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (245 0280).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's guided sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Laurie Anderson (Brooklyn Academy of Music). The performance artist opens the season's Next Wave Festival with her latest solo work, Empty Places. Ends Oct 15. (713 636 4100)

## Washington

A Few Good Men (Eisenhower). One of the few new, contemporary dramas headed for Broadway gets its world premiere in Washington, in this story of a military cover-up. Ends Oct 28. (467 4600)

## Chicago

The Misanthrope (Goodman). The first production of the season exchanges Molière's France for contemporary Hollywood in a new adaptation by Neil Bartlett, directed by Robert Falls with David Duxford playing Alceste. Ends Nov 4 (443 3800).

Driving Miss Daisy (Gitar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

## EXHIBITIONS

## London

The Hayward Gallery. Andy Warhol - two years after his death, a comprehensive retrospective of the career of this seminal yet ambiguous and still controversial artist, since he turned to painting from graphic design in the early 1960s. Sponsored by BP. Daily until November 12.

The Royal Academy. The Art of Photography 1839-1989: in celebration of the 150th anniversary of the first practical demonstration of the medium, this large and impressive exhibition leads the visitor through the practical, developmental and aesthetic variations and experiments in the use of the medium, from the work of the earliest pioneers in France, England and Scotland, up to the present. Daily until December 22.

The Royal Academy. Gaudin and the School of Font Aven - a fascinating study of the prints made in the 1890s and 1900s by the loose society of artists that came together at Font Aven in Brittany, of which Gaudin was the leading but not necessarily, at the time, the outstanding figure. Daily until November 19.

## Paris

Musée des Arts Décoratifs. Je suis le Cahier - Picasso's sketchbooks. After two years of menageries the world over, the exhibition ends, only in Paris. The 40 sketchbooks covering a period of 64 years follow closely Picasso's development. 107, Rue de Rivoli (45652244), closed Tue, ends December 31.

Institut du Monde Arabe. Egypt. An exhibition of 25 *chef d'oeuvres*, including the most recent finds, starts with statues and bas-reliefs dating from the middle empire, continues with a golden crown of a high priest of Osiris with some elements of Roman art and Coptic icons and concludes with Islamic exhibits. 1, rue des Fossés-Saint-Bernard (closed Mon). Ends Jan 14 (40513838).

The Louvre. The glass pyramid, built by I.M. Pei, the Sino-American architect, has opened to the public as a dramatic entrance to one of the world's most famous museums. Erected as a medieval fortress in 1304, the Louvre later expanded into a renaissance royal palace only to be turned into a museum in revolutionary 1793. Open 9am-6pm, Mon and Wed until 9.45pm, closed Tue.

Musée Rodin. A delightful 19th century townhouse - Hotel Biron - contains the life work of Auguste Rodin, whose powerful genius opened the way for modern sculpture. In the gardens his *Thinker* broods, the *Burgers of Calais* stride to their tragic destiny and Balzac, draped in his cloak, defies time. 77, rue de Varenne, closed Tue.

Musée d'Orsay. The spectacular museum of the 19th century is situated opposite the Tuilleries gardens within the metallic structure and the glass-roofed vault of the vest Belle Époque railway station. Entrance to the museum is at 1, rue de Belle-Époque (45494914). Closed Mon.

who until recently had not been appreciated by his fellow countrymen. Ends October 29 and not to be missed.

## Martigny

Fondation Gianadda. A Henry Moore retrospective of some 50 sculptures, 80 drawings shown in rotation and 60 engravings is as impressive by the judicious selection of exhibits, as by the exceptional location for 12 of the monumental statues in a park with Alpine peaks as a backdrop. Ends Nov 19 (026 222376).

## Brussels

Europejska Japonia 88. Having celebrated the art and culture of Austria two years ago the Europa turns to the east this year, bringing to Belgium the most spectacular festival of Japanese arts outside Japan. Ends on December 17.

Palais des Beaux-Arts. The Human Figure: millennia of Japanese art - an overview of Japanese art from 3000 BC to the 19th century which opens Wednesday and ends November 26.

Benque Brunnels Lambert. Japanese Buddhist Art from the Kyoto prefecture exhibits works from the 7th to 19th century. Opens Thursday, ends October 30.

Tzern-Alsther Fine Arts. Le Cerele des XX, late 19th century Belgian Painters. Closed Mon, Sun. Ends Oct 31.

## Bonn

Beethovenhalle Bonn. 50 portraits of Beethoven by the American pop artist Andy Warhol. In addition to the Bonn Beethovenfest, an Andy Warhol exhibition is taking place until October 1.

## Berlin

Brucke Museum, Borsardale 9. A Franz Marc retrospective with 150 drawings and aquarels (1890-1916) most of the German expressionist painter's works, can be seen for the first time until Oct. 20. His famous hand-coloured print of two horses, one blue coloured the other red-black, with a red, blue, yellow and green ground, was published in a luxury edition of the almanac *Der blaue Reiter*.

## Munich

Städtische Galerie im Lenbachhaus. The most complete retrospective of the expressionist painter Karl Schmidt-Rottluff to date with almost 350 works.

## Bonn

Städtisches Kunstmuseum, Rathenaustrasse 7. Glanzzeiten, 40 years of government support for art.

## Vienna

Secession. The highlight of the next few weeks will be the 100th anniversary of the birth of Ludwig Wittgenstein, the philosopher, architect and craftsman.

who until recently had not been appreciated by his fellow countrymen. Ends October 29 and not to be missed.

The Technische Museum. Although not the most elegant of Viennese museums, has put together an exhibition exploring the relationship between art and industry and how industry has tapped the imagination of the artist. Ends October 26 1989.

The Benediktine Monastery in Melk, an hour's drive from Vienna, celebrates its 900th anniversary. Besides a fascinating collection of paintings, books and later, newspaper cuttings, the Abbey boasts the finest baroque architecture in this part of Europe. Until November 12.

## Turin

Russian and Soviet Art 1870-1989. Renzo Piano, architect of the Beaubourg, has given the 250 works chosen from Soviet museum by Giovanni Carandente an immensely effective setting, turning the ground-floor workshops of the disused Fiat factory into the equivalent of an Arab tent. Ends October 24.

## Verona

Palazzo Grassi. Italian Art 1900-1945. A much-amplified exhibition covering a brief period from the recent show at the Royal Academy in London, organised again by German Celant, with the director of Palazzo Grassi, Pontus Hultén. An attempt is made to put the works into a clear political and social context, emphasising links with contemporary literature, music and cinema. The exhibition ends with two blown-up stills from films by Visconti and Rossellini. Ends Nov.

San Giorgio Maggiore. Hogarth - a beautifully chosen study of the life's work, prints, drawings and paintings, of the first great English artist of the 18th century, William Hogarth, organised jointly by the Clai Foundation in Venice and the British Council. Hogarth has never been shown abroad before, and this master of the picaresque and social satire could hardly be seen to greater advantage than in the city of the Carnival. Until November 12.

## Mantua

Palazzo Te, Trinità di Palazzo Te, Reggia Gonzaghesca. A vast exhibition devoted to Giulio Romano, Raphael's favourite pupil, who spent the last 25 years of his life in Mantua, producing masterpieces of architecture, painting, engraving and fresco. The frescoes of Palazzo Te have been restored, and one of the results has been proof that Giulio did more and his pupils less of the decoration, than had previously been thought. Ends November 12.

## Florence

Forti di Belvedere. African Art: The Roots of Modern Art. One hundred and fifty sculptures, mainly in wood, produced by

66 different tribes spread through central, western and southern Africa. Not difficult to understand the profound influence these precocious plastic works had on such artists as Picasso and Braque. Ends Oct 29.

## New York

Whitney Museum. A special exhibit from the museum's extensive holdings of Edward Hopper highlight the realistic painter's Paris and domestic scenes among the 151 pieces in all media. Ends Nov 4.

Metropolitan Museum. A decade of fabulous shows borrowed from around the world culminates in the present exhibit of the major works of Velázquez, much of which is borrowed from the Prado in Madrid. Ends Jan 7.

Museum of Modern Art. Crossing only eight years, from 1897 to 1914, Picasso and Braque: Pioneering Cubism: a collection of more than 350 works of the two artists during their fruitful collaboration before Braque left for war. Ends Jan 16.

Centre for International Contemporary Art. A new New York institution, with the goal of cataloguing curatorial information about artists around the world, opens appropriately with a retrospective of Japanese artist Yayoi Kusama. Ends 4 Feb 1990.

## Washington

National Gallery. A major international collaboration showing the major works of Franz Hals outside the Netherlands for the first time since his death in 1684. More than 60 paintings, past year it travels to the Royal Academy in London and the Musée de la Ville de Paris in Paris.

## Chicago

Art Institute. Finding the Shadow: the history of photography at its 150th anniversary. Of the millions of possible contributions, the exhibit focuses on 400 pieces by 200 photographers, organised chronologically. Ends November 16.

## Tokyo

Tokyo Museum. 400 Years of Edo/Tokyo. When the shoguns moved the seat of power to Edo in 1590 it rapidly became one of the world's largest cities. Closed 2nd and 4th Wednesday each month.

Sanjaya Museum. Japanese Tenshi. A selection of fine works from a prominent American collection - ranging from elaborate kimono and theatrical costumes to simple triumphal poles and other specified garments.

Chenai Museum. Zen Paintings by Sengai (1790-1837). Ink paintings and calligraphy by a monk whose witty words reflect the essence of Zen Buddhism. Closed Mondays.

Sanjaya Museum. The Message. The Tale of Genji and Murasaki Shikibu. The opening exhibition at Tokyo's Grand Hotel is a tribute to one of the classics of Japanese literature and the authors. On display are manuscripts and scrolls.



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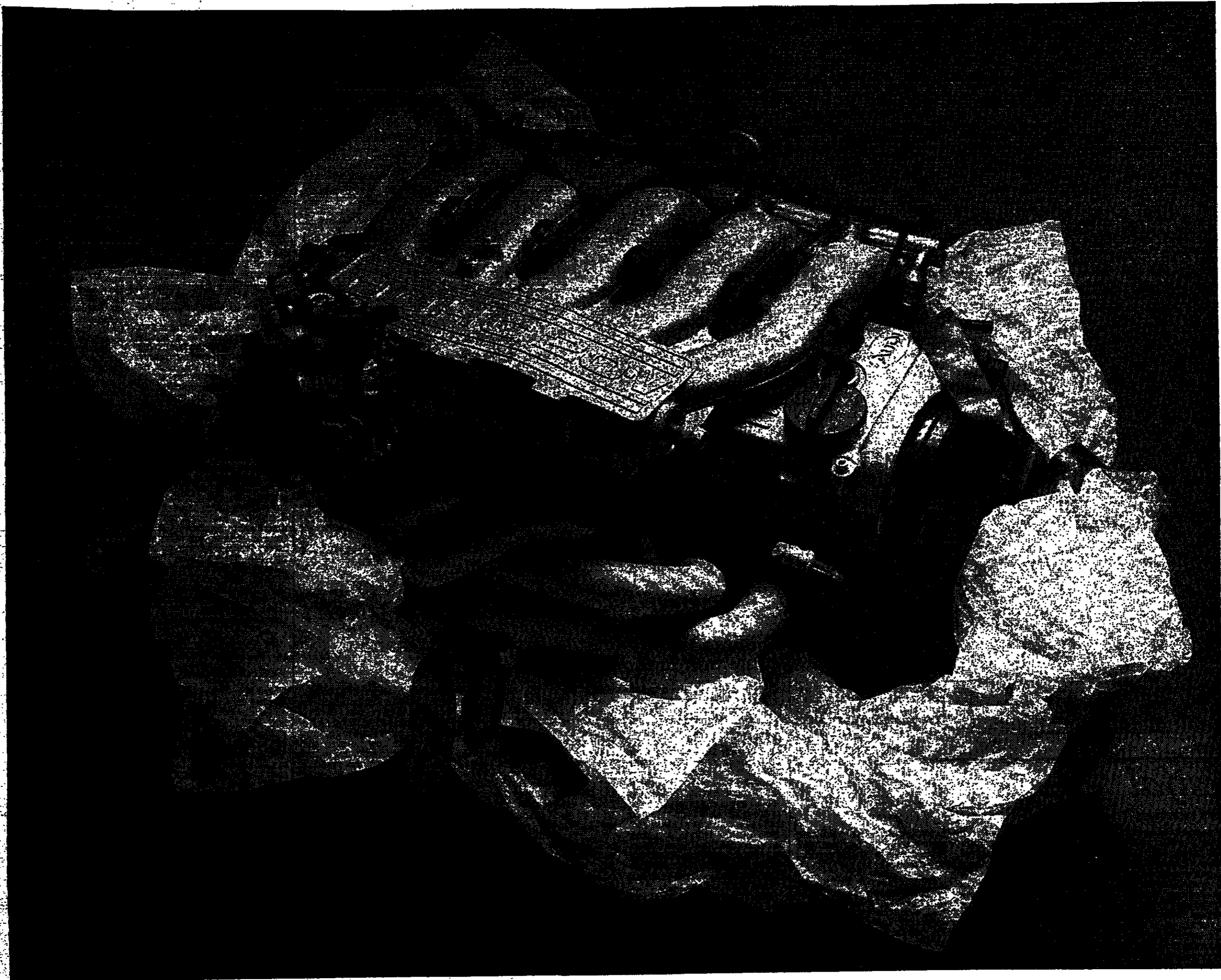
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VORSPRUNG DURCH TECHNIK.

## Paris Match

### GARRICK THEATRE

Those of my colleagues and fellow theatregoers who constantly compare British theatre unfavourably with the depth, vitality and style of the European stage should cop a load of this. A French success, this has a grumbling maid, spouses who surprise their partners on sofas with members of the opposite sex, vulgarian business people (Jewish, to boot), the significance of which escapes me unless words like "Shalom" are meant to raise a titter in themselves), and a funny drunk harp, a "sooth-sayer and layer-on of hands" Sheila Steafel's sudden and

belated eruption into the moribund proceedings make one long to see her as a Neasden Madame Arctur.

It also has exchanges like "Bach is not for young children" "Why? Is he smutty?" After the intellectual rigours of *Exclusives* why not unwind with this rib-tickler?

In brief, Stephen Moore is surprised one night with a willing flibbertigibbet when his wife returns home unexpectedly. Improvising madly, he passes the girl off as his daughter, floundering into creating a whole background and history for her. The action splatters

over the Easter weekend as Siân Phillips coquely does a loving stepmother act, even unto trying to pair off the tarty girl with the son of an important business associate of her husband. The formal dinner party with its frantic pretences and cross purposes reminds us that the author, Jean Poiret, wrote the original *Cage aux Folles*, and that the present work ran for over 2000 performances in Paris.

The few stylish elements in this dinosaur of a comedy are headed by Pierre Balmain's costumes in which Miss Phillips looks elegant, though I cannot believe the *maison de couture* was responsible for Miss Steafel's tottering red slingshots and matching box-jacket and hat in fake leopard-skin. On second thoughts, Maison Balmain probably have more wit than director Christopher Benham or adapters Marcel Stellman and Leslie Clark.

Apart from the sublime Steafel who has the comedian's god-given gift of alarming unpredictability in even the most predictable lines, comic pleasure is afforded by Madeleine Newbury as the business colleague's gaudy and loud wife. Her face is a blend of Cicely Courtneidge and the young Dandy Nichols, and she deserves bigger and better roles. I have never seen an actor work so hard as Mr Moore to so little effect. He brings off a routine with an electric shaver as he slips out of a shirt without removing his jacket to a thunderously silent house; an indulgent first night audience could be expected to bring the house down in normal circumstances. Nor does Chilli Bouchier's dragon-like maid break the sound barrier with such belters as "Bloody cheek!" or (a certain line) "Dinner is burnt!"

The production is co-presented by Theatre Glyndwr, another example of the knavish alliances that the French forge with our disgruntled Celtic minorities in an attempt to discomfort the English.

Martin Hoyle



Siân Phillips

## Parsifal

### BERNE CITY THEATRE

It is a brave small company which tackles *Parsifal*. Not even all the larger German houses manage to mount the traditional performances at Easter, and productions outside German-speaking Europe are rare. *Parsifal* simply needs a special purpose and concentration of resources if the result is to be worthwhile.

This production in Bern is the latest collaboration between the Swiss stage director Francois Rochaix, his regular designer Jean-Claude Maret, and the conductor Rodrick Brydon. They prove that there is much to be gained by seeing and hearing *Parsifal* at close quarters, in the intimacy of a small theatre. They also suggest that Wagner's sacred stage festival play takes on a life of its own as secular music-theatre, stripped of the semi-religious piety with which audiences have been encouraged to approach it in Germany.

Rochaix treats *Parsifal* as a theatrical tale, in which purity, renunciation and redemption — with all their attendant rituals — are demystified and presented in recognisable human terms. The tale is told simply and effectively, by detailed gesture and grouping; it is good to be able to hear the text so clearly, to follow Gurnemann's narration through the

entranced reactions of the Knapen, and to have Kundry's psychological and sexual appeal to Parsifal convincingly explained.

Montsalvat is a barren, neutered world, broken up by rows of stepped, sliced-off columns with pudding-basin hairstyles and austere uniform, the knights of the Grail resemble a Calvinist sect, whose devotion to a chosen ideal has deprived them of their sense of colour in life.

Act Two is set in the cool shade of a Moroccan castle interior. The flower-maidens are sensual young playthings who share the physical intimacy and sexual competitiveness of the harem, using their bathing pool for splashy, seductive foreplay. For once, this scene proved genuinely erotic. The staging does make heavy work of the supernatural element in *Parsifal* — but the incongruities are far outweighed by the freshness and originality of the approach.

Like Rochaix, Brydon has tried to strip away traditional accretions, and in doing so he brings out the forward-moving linear contours of the score: this is very much *Parsifal* in the fast lane à la Boulez. But it is also an unexpectedly polished performance, with proper regard for structure and dynamic control, and much

revealing detail (the delicate striding trills in Gurnemann's first address to Parsifal are just one example).

Johann-Werner Prein confirms his rising status in the ranks of Wagner bass-baritones with a Gurnemann of towering dignity. Tall, gaunt and looking as if the whole world lay on his shoulders, Prein acts with the measured reactions and expressions of a man twice his age, and uses his noble voice for an exemplary delivery of the text. It is unusual to hear such intelligence and natural emphasis applied to simple statements like "Du kommst morgen."

As Kundry, Yvonne Minton gave every sign of being back at the height of her powers. Ian Caley's chubby, baby-faced Parsifal needs to improve his German diction, but moved convincingly from the naive clumsiness of the first act to the self-assured man of the world at the end. Ivan Kouslov as Klingsor and Niklaus Tuller as Amfortas lacked sufficient presence, but the smaller parts and chorus were well sung. Against the odds, Bern has pulled off a remarkably coherent feat of Wagner production.

Andrew Clark

## ARTS



Detail from the Sala degli Stucchi in the Palazzo Te

## Raphael's exuberant pupil

William Weaver reviews the Giulio Romano exhibition in the Palazzo Te, Mantua

In the past few decades, the city of Mantua, expanding, has reached and surrounded the once-isolated Palazzo Te, where the Marquis Federico Gonzaga in the early 16th century kept his horses and — when it was made more comfortable — entertained his mistress and visiting dignitaries. But despite modern buildings and urban encroachment, the Palazzo still retains a sense of peaceful and pleasurable isolation, along with its fascinating architectural and decorative mixture of sober respect for classical style and with unleashed sensual, erotic imagination.

Thus the Te is the ideal site for the larger part of the mammoth exhibition devoted to Giulio Romano, who directed the transformation from stables to *delizia*, the real inventor of this pleasure-dome for his ducal admirer and patron. Though there were subsequent alterations to the rooms, notably in the Napoleonic period, and though even in the Cinquecento, Giulio did not personally execute all the decorations, the Palazzo Te is his and bears conspicuously the imprint of his exuberant, sometimes excessive, but always likable personality.

The isolation of the palace has been further reduced, these days, by the immense success of the exhibition, which has attracted thousands of visitors, reminding the local inhabitants of the great Mantegna exhibition of 1961, the first Italian blockbuster show, whose crowds and long queues have remained memorable. The isolation of Raphael and, in Mantua, successor of Mantegna, Giulio Romano has never had a really exhaustive exhibition devoted to him before, and even the profane

visitor leaves the Palazzo Te (and the rooms of the Palazzo Ducale, where there is a complementary show) with respect, indeed awe, inspired by the prodigious gifts — and the prodigious energy — of the artist. The frescoes of the great rooms — the complex and gory Chamber of Psyche, the still-frightening Chamber of the Clans — have been restored and glow with all their original warmth and brilliance.

Giulio's paintings, drawings, and architectural designs are exhibited in the ample "fruitier," the rooms where potted citrus fruit trees were housed; there is space also for a series of ingenious, detailed scale-models of some of Giulio's greatest achievements as an architect. The Palazzo Te model is particularly interesting, underlying the bold harmony of the construction and its setting, the gardens, the long tanks of the "peschiere," the hidden court with its grotto.

But the Palazzo itself, as its restoration is virtually complete, proves the true protagonist of this event. In addition to the vivid frescoes, the walls have returned to their original cream colour, the court has been appropriately repaved, there is water in the *peschiere*, the outer walls have been cleaned and, no longer the damp of recent years, they are pale and warm (the effect is reminiscent of Malraux's Paris cleaning).

Giulio Romano was in his mid-twenties when he came to Mantua in 1524 (having left Rome after creating a scandal with some licentious drawings). His work on the Palazzo Te lasted a good ten years, but he also was employed in other tasks, and eventually he was placed in charge of all construction in the city of Mantua.

Not a brick could be laid without his supervision. A true Renaissance man, he took an interest in everything, and Vasari tells how he even concerned himself with drains and "by his industry, he rendered dry, healthy and pleasant places previously miry, full of stagnant water, and almost uninhabitable."

In the fruitier the diligent visitor can study a hundred and sixty drawings, thirty paintings, in addition to medals, designs and the models mentioned above. The State Archive of Mantua has also supplied an important series of documents, among them the inventory of Giulio's belongings made at his death, proving that his art had made him rich and, as a contemporary said, "he lived in the style of a great gentleman."

From the Palazzo Te a special little bus takes the visitors to the Palazzo Ducale, where, in a suite of rooms (among them the Sala di Troia, frescoed by Giulio), some magnificent tapestries are displayed, made from Giulio's designs. But Giulio's presence is felt everywhere in the city. His elegant house still stands (privately owned, it is not open to the public, but the facade betrays Giulio's hand); the tomb he designed for Baldassare Castiglione, the Gonzaga ambassador who brought him from Rome to Mantua; the Boschetto chapel, property of the family of Isabella, Federico's chaste mistress and other churches, gates, palaces. From all of them a kind of portrait of Giulio emerges, coinciding with Vasari's description of him: "profund, spirited, fanciful, various, prolific, and universal... an agreeable companion."

## Too late for Logic

### ABBEY THEATRE, DUBLIN

Tony Murphy's contribution to the Dublin Festival is, intellectually speaking, a sheep in wolf's clothing: once one realises that a detailed knowledge of Schopenhauer is not essential, one can begin to come to terms with it. Unfortunately, that realisation is a fair while coming.

Behind the references, and within a structure that is often tantalisingly oblique, shelters a painful and personally-felt search for love and trust in the ruins of a broken marriage. It does not seem too fanciful to see the playwright's own turmoil in his main character, Christopher, a university lecturer who has insulated himself from his sense of loss and guilt by sheathing himself in his work.

We meet him, waving a gun at the graveside of a family funeral in which the family are spectral, disapproving figures swirling in dry ice. Has he committed murder or is he about to commit suicide? By way of answer, he insists on his right to re-live the events of the last few days "logically, step-by-step," on the basis that should the findings dictate "this drastic course of action," he will concur.

Immediately, he sets out on a re-construction of events following the death of his wife's sister and the subsequent disappearance on a drunken bender of her distraught husband. When trouble strikes, the men run away, leaving women to pick up the pieces. The boozy misery of Des Caves's Uncle Michael is directly analogous to Christopher's impulse to surround himself in his lecture tapes.

The most "real" thing that happens to him, during the course of the play, and by extension, since the end of his marriage, is when the events of his personal life intrude on his lecture to such an extent as to destroy its logic and smash his concentration, leaving him mouth-agape into a switched-off microphone in what was to be his big break — a scene Tony Doyle handles brilliantly.

Murphy's writing delights in Beckettian games with the mechanics of language — tape-recorder and telephone answer-phones have a strong thematic presence, both as instruments of repetition and as implements for keeping communication at bay. At its best, his play with words, meanings and contexts match his mother's with intellect, at its worst, it is simply obnoxious.

Patrick Mason's production, framed by a dream-like set from Monica Frawley, manages to hold the delicate balance between concrete and surreal. It draws uniformly fine performances — whether from Michael Forbes' fiery and compassionate Petra, Christopher's daughter, resolutely fighting her mother's battles, or from Godfrey Quigley and Garrett Keogh, as two bar-room boozers who take their accidental involvement in a family bereavement as leave to stay on for a wake which, finally and sacramentally, renders murder or suicide redundant.

Claire Armitstead

## Frida and Diego

### EVERYMAN, CHELTENHAM

There is no intractable course of time in Greg Collier's play about the love of Diego Rivera and Frida Kahlo. Things are shown, or anyway suggested, in a surrealist way, when events bring them up. There are 22 characters in the script; the Red Shift company has seven players, and the play is described as "A Love Story," but Frida and Diego love with a love that is more than love, that survives endless betrayals on both sides. Two of Diego's previous wives haunt the scene, and he is shamelessly unfaithful with Frida's sister Cristina, Natalia Trotsky (Leon's respectable wife) and Helen Willis Moody. Frida's escapades include Trotsky, but are more widely spread; she claims to have had 300 abortions.

Frankly, what happens is less important than the way it is shown — even the political matter. The scene is Mexico in the 1930s and '40s, where the Government is communist but the people Roman Catholic, yet the only political event shown is the arrival of the refugee Trotsky, who is accepted by all the intelligentsia until he is murdered (ostensibly by Stalin).

Jonathan Holloway's production is as exciting as it is beautiful. There is a set by

Charlotte Humpston that lines up across the stage two small houses and a garden, with a musician upstage. Among these the affairs happen, not necessarily in chronological order, though we do begin with Diego's marriage to Frida, his first marriage — and end with Frida's death. Both Diego's reputation as a painter of murals and Frida's, success under the recommendation of André Breton (with whose wife Jacqueline she was having a lesbian affair) are spoken of but not shown.

Indeed many props are not shown, even if characters are seen handling them. (Pistols are for some reason an exception to this scheme.) We are in the theatre of imagination, where a gesture may suggest an entity, where an emotion may become a dance or a song. It is heartening to see, and the company are wonderfully exact. Anna Sarva plays Frida, determinedly Mexican, and Nicholas James plays Diego, long-haired. This is one of the imaginative variety of theatrical items included in the year's 40th Cheltenham Literary Festival, of which more later.

B.A. Young

## Assylmuratova

### COVENT GARDEN

It is the special genius of the Kirov ballerina, Alkyna Assylmuratova, that she can show the full implications of the role of Nikiya, the temple-dancer in *La Bayadère*. Making a single guest appearance with the Royal Ballet on Wednesday night, she had established Nikiya's character within a few minutes of appearing on stage. Gravely she descends the temple steps. The High Brahmin removes the veil from her head to reveal the blaze of Assylmuratova's beauty. Her eyes are turned towards the skies, and only when the Brahmin makes his avowal of passion does this Nikiya look towards the world. A central theme of the ballet, the conflict between love sacred — or at least consecrated — and profane, has been stated.

In Assylmuratova's interpretation the drama and the dance live, and how fully and richly are they expounded. From her Kirov training come both the serenity of style and the absolute credibility of her playing — she is heir to the role's long traditions. But it is nature which formed her, as we saw in her earlier appearances this year at Covent Garden, so that pose and gesture seem to flower from the luscious torso, and it is temperament which enables her to give such breadth to the least action. Assylmuratova constantly astounds by the grand scale of her dancing. Even in a performance, as on Wednesday, when a new partnership (with Jonathan Cope's Solor) was not of the easiest, the momentum of her movement, and its outward reach to vast horizons of feeling and line, were magnificent. It is dancing of immense generosity, looking at moments as in a diaphanous, the Shades scene, greedy in devouring space.

Assylmuratova's mystery — that unguessable quality which marks the great dancer — lies partly in a contrast between her dazzling, all-conquering femininity, her physical prowess, and the disciplines of academic style, despite the call of Dionysus, she remains a servant of Apollo. In this central balance of her artistry, we can also sense the crisis at the heart of *La Bayadère*, where Nikiya urges Solor to be faithful to a love sanctified over the holy fire. In the Shades scene, she tells him: "Be true! Be true! And with what grace — and force: she is no pale wisp of air — did Assylmuratova expose these feelings through the amplitude and the intensity of her manner."

For all that there were uncertainties attendant upon a single guest appearance, Assylmuratova gave an interpretation of memorable beauty, and we are grateful. She must return.

Clement Crisp

### SALEROOM

Russian art is all the rage these days and Christie's produced a morning total yesterday of £513,403, with just 10 per cent unsold. Dealers were busy. Warhol paid £38,500 (top estimate £12,000) for a yellow metal and enamel cigarette case given to the last Czar,

Nicholas II, by his mother at Christmas 1915, and Koonman £25,200 for a silver punch service made at St Petersburg in 1874. It was sold by the Royal Geographical Society.

A.T.

## ARTS GUIDE

### OPERA AND BALLET

#### London

**Royal Opera, Covent Garden.** The new attempt at a Royal Opera Ring opens with *Die Walküre*, in a production by Götz Friedrich adapted from his Berlin staging. Bernard Haitink conducts, and the cast includes James Morris, Gwyneth Jones, René Kollo, and Gabriele Schnaut. Thomas Allen gives a Covent Garden recital on Wednesday.

**English National Opera, Coliseum.** Kurt Weill's magnificent "Broadway opera" *Street Scene* comes to London after being shown by Scottish Opera earlier in the year. David Pountney's production, designed by David Fielding, is conducted by Carl Davis. The cast includes Kristine Ciesinski, Janis Kelly, Donavon-Jana Botton, and Richard Van Allan. Further performances of the surreal, vividly theatrical production of Verdi's *A Masked Ball*, by producer David Alden, designer David Fielding, and conductor Mark Elder, with Arthur Davies, Janice Cairns, Jonathan Summers and Linda Finnie in leading roles; and of *The Magic Flute*, conducted by Alex Ingram, with Thomas Randle, Joan Rodgers, Nicholas Folwell, and John Connell.

**Paris.** *Théâtre des Champs Elysées.* Der Rosenkavalier is performed by the Paris Opera Orchestra, conducted by Georg Schmeiche in a new production, co-produced by the Théâtre des Champs Elysées, the Montpellier Opera and the Nantes Opera (47206337).

**Théâtre de la Ville, Jiri Kylian and the Nederlands Dans Theater** come with a programme often influenced by Czech folklore and Slav nostalgia (42742277), followed by Karine Saporta and her company with Spanish-fused *Les Tauxeurs de Chimène* (42742277). Centre Georges Pompidou. Douglas Dunn and dancers perform in the framework of the Paris Festival of Autumn *Sky Eye*, full of packish humour (42869888).

**Vienna.** Staatsoper. *L'Elisir d'Amore* is conducted by Elit Weikert, with Alida Ferrarini, Noriko Sasaki, and Rolando Palazzi. Don Carlo, conducted by Claudio Abbado, has Alida Ferrarini and Francesco Arzuffi in the leading roles; *Idello* is conducted by Adam Fischer and sung by Elizabeth Connell, Joana Korowka and Hans Sotin; the cast of *Salome* includes Eva Maria Bundschuh and Heinz Zednik.

**Berlin.** Opera. *Arabella*, produced by Gernot Friedel will have the premiere this week with Lucia Popp in the title role, Angela Maria Blas, Bernd Weill, Peter Seifert and David Griffith and conducted by Gusepina Simonelli. Guest appearance of the Leipzig Opera Ballet with Teatrulul's *Schwanensee*. *Zeit und Zimmermann* brings Gudrun Sieber, Barbara Scherler, Andreas Schmidt

and Peter Mann together. Carmen, sung in French, has Ludmila Schenck, brilliant in the title role.

#### Stuttgart

Opera. *Tannhäuser* stars Reiner Goldberg in the title role. Waltraud Meier, Verena Schweizer and Matthias Hoelle. *Der Freischütz* in Achim Freyer's production returns with Helena Dose, Ulrike Kuntze, Wolfgang Probst and Toni Kraemer. Also offered *Fidelio* and *Die Walküre* produced by Marcia Hayoe.

#### Bonn

Opera. *Spauritus*, the new ballet production, choreographed by Bonn's director Yari Vámos, proved a sensation, when it opened. *Aida* is directed by Jacques Carpo and expertly conducted by Bonn's music director Dennis Russell Davies and has Rosalind Plowright, Lando Bartolli, Livia Budai and Jean-Philippe Lafont.

#### Frankfurt

Opera. *Il Barbiere di Siviglia* features Marianne Rorholm, Michel Shamir, Bruce Ford, Enzo Dara, Alessandro Corbelli. *Fire* is jointly choreographed by Laura Dean and William Forsythe. *La Bohème* has Eliane Coelho making her debut as Mimì, Patricia Wise as Musetta, Alberto Cupido in the part of Rodolfo and Bruno Pasqueto as Marcello. Britten's *Ein Sommernachtstraum* rounds off the week.

#### Cologne

Opera. *Madame Butterfly* is sung by Hiroko Nishida, Toshiyuki Hasegawa, Hasegawa and Jake Gardner. Also the rarely played act opera by Rossini *La Cenerentola* with John del Carlo, Teresa Ringold, Janice Hall, David Kneibler, Alberto Rinaldi, and Carlos Felles. *La Traviata* has a strong cast led by Frances Guizer, Fernando de la Mora, Paolo Cini and Erlingur Vigfusson.

#### Rome

Teatro Dell'Opera. Rossini's *L'occasione fa il Lord* in the recent successful Pesaro Festival production (46.17.55). Teatro Olimpico. *I Balli di Sforza* traditional Neapolitan songs and dances performed by the Nuova Compagnia di Canto Popolare di Napoli.

#### Milan

Teatro Alla Scala. The Bolshoi Opera takes the place of the Scala Opera Company, on tour in the Soviet Union, with Musorgsky's *Boris Godunov*, Rimsky-Korsakov's *Mlada* and Prokofiev's *Duenna* (46.51.20). Teatro Nazionale. The Scala Ballet Company dancing Balanchine's *Quattro Temperamenti* and Apollon Musagete, and Flemming Flindt's *La Leon* (4396700).

#### New York

Metropolitan Opera. James Levine conducts *Aida* in Scala Festival's production with Aprile Millo, Plácido Domingo and Sher

## October 6-12

At Milnes, in a week that also includes *Porgy and Bess* with Patti LaBelle and Larry Marshall, and *Terrence Strates* in Puccini's *Il Trittico* (*Il Tabarro*, *San Antonio*, and *Gloria Schicchi*), all conducted by James Levine, Opera House Lincoln Center (833 6000). New York City Opera. The week includes *Street Scene* conducted by Paul Gershwin, *La Bohème*, *La Traviata* and *Il Principe* the new production of *Don Giovanni*. Lincoln Center New York State Theatre (877 4700).

Martha Graham Dance Company. After his surprising resignation from the American Ballet Theatre, Mikhail Baryshnikov dances with one of America's premiere modern classic theatres in the mixed programmes from their extensive repertory. Ends Oct 22. City Centre (833 7807).

#### Washington

Jeffrey Ballet. Fortnightly's engagement celebrates Nijinsky's 100th birthday with the first Washington performances of *Le Sacre du Printemps* and *Les Nois*, as well as a world premiere by company artistic director Gerald Arpino. Ends Oct 15. Kennedy Centre Opera House (254 3770).

#### Chicago

Lyric Opera. The opening production of *Terrence Strates* with Patti LaBelle and Larry Marshall is conducted by Bruno Bartoletti in Depe De Tomasi's production. Jiri Kout conductor *Der Rosenkavalier* with Anna Tomowa-Sintow, Kathleen Battle and Julian Patrick (833 2240).



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Friday October 6 1989

## Bundesbank cracks a whip

EUROPE already has a central bank. It is called the Bundesbank and it is located in Frankfurt. If there were any doubt about this, then the events following the one percentage point interest rate rise of yesterday should surely dispel them. The increase was promptly followed by central banks throughout the European continent, not to mention the beleaguered UK.

The extent to which the Bundesbank is acting as a *de facto* European central bank is not widely understood. About 80 per cent of the increased demand for West German production has been generated, directly or indirectly, from abroad. While responsible for price stability in West Germany, the Bundesbank finds itself looking at demand in Europe as a whole. Curbing that demand is a natural objective: it will be the result of the changes in interest rates announced yesterday.

Yet there are also purely domestic reasons for raising interest rates in West Germany. The tax cut due next year is one; the importance of the coming wage round is another; behind both are rates of inflation running at around 3 per cent and of economic growth at 4.3 per cent in the year to the second quarter. With domestic capacity still stretched (notwithstanding the beneficial impact of immigration from eastern Europe), the Bundesbank will not wish to see increased pressure emerging next year.

## Large intervention

Finally, there is the not unimportant matter of co-ordination among the Group of Seven industrial countries. It is no secret that the Bundesbank has been less than thrilled by the weakness of the D-Mark against the dollar. While large intervention has driven down the dollar somewhat in recent weeks, such intervention does not represent a satisfactory long-term approach to exchange rate management. With lower US interest rates now unlikely, interest rates need to rise elsewhere. The surprise is that Japan is still holding out against the pressure.

The decision to raise interest rates has been presented as a

concerted European move. But, in the case of most of the other monetary authorities, this is largely window dressing for domestic consumption. The Bundesbank would, indeed, probably have been quite happy if some had decided not to follow it, so making an adjustment of exchange rates within the European Monetary System more likely.

## Showing courage

While not a member of the exchange rate mechanism of the EMS, the UK has had little choice but to follow suit. Thus sterling seems to obtain most of the disadvantages of full participation in the EMS, and none of the advantages. None the less, Mr Nigel Lawson has shown courage in raising interest rates, with mortgage rates bound to follow, just before the Conservative Party Conference.

Yesterday at least he gained his reward, with sterling strengthening following the news. But the parallel rise in interest rates may not be enough. The pressure on sterling that existed before the concerted rise in interest rates could well re-emerge.

While the Bundesbank's action provides cover, an interest rate differential that remains at 7 percentage points suggests that much of what is wrong is home grown - and correctly so. With the personal savings ratio falling to a mere 3.2 per cent in the second quarter of 1989, the continued buoyancy of imports, the sustained decline in unemployment, and the rapid growth of M4 and M0 (at seasonally adjusted annual rates of 17.7 per cent and 9.6 per cent, respectively, over the last six months), there are sound domestic reasons for tighter money.

The Bundesbank is exporting the benefits of its independence to Europe as a whole. In so doing, it is reminding us of the risk of moves to economic and monetary union that might threaten the independence of the current Bundesbank-led European monetary policy. It is also reminding us that the spread of 7 percentage points between short-term rates of interest in West Germany and in the UK indicates the costs of political control over British monetary policy.

## Labour's policy for industry

AMONG THE most striking features of the 1980s has been the acceptance, even on the political left, of the superiority of market mechanisms over planning. The antipodean Labour parties have experienced particularly remarkable conversions: the socialist parties of France and Spain are only a little behind, and even several communist parties are on the same road to Damascus.

From the complaints of Mr Tony Benn and his friends one might conclude that the British Labour Party is well down the same road. A more pragmatic Labour Party has emerged, it appears, one that will rely on the market, where appropriate, and remedy its defects, where needed.

Unfortunately, not as much lies behind this impression as one would wish. It is true that, with its commitment to full membership of the European Monetary System and Mr John Smith's assurance that "we cannot spend what we have not earned," the party has chosen an orthodox macroeconomic course. But there is nothing new about this. Mr Smith would be just another in a long line of impeccably orthodox Labour Chancellors.

## Attitude to market

A real change in the approach of the Labour Party would be shown in its attitude to the market. Old-style nationalisation has, indeed, largely gone. But, just as admiration for French indicative planning brought forth the Department of Economic Affairs in the 1960s, so now admiration for the Japanese model is to bring forth a new Department of Trade and Industry, which will be the guardian of a "medium-term industrial strategy" and proud possessor of "an equal, if not superior, status to that of the Treasury." It will be a powerhouse dedicated to raising the quantity and quality of investment in British industry, just as MITI has done so successfully in Japan.

Battling the dragon of "short-termism" wherever it lurks, the new DTI is "to work closely with industry, to develop strategies, to identify priorities, and provide the assistance, resources and organising capacity which industry will need." Helping

the gnomes of Victoria Street will be a British Technology Enterprise "for high-tech projects of national strategic importance" and regional and local investment banks, serviced and co-ordinated by a British Investment Bank.

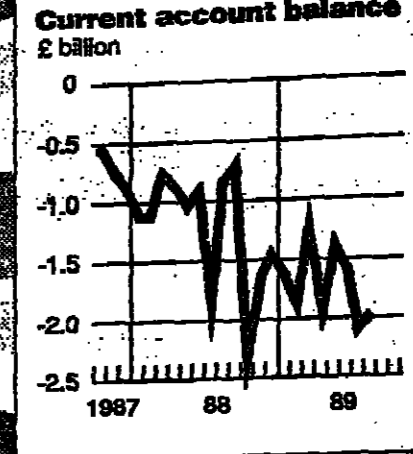
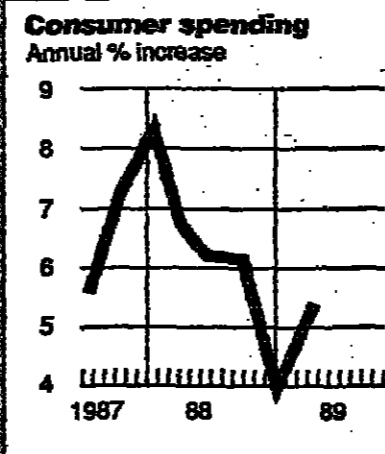
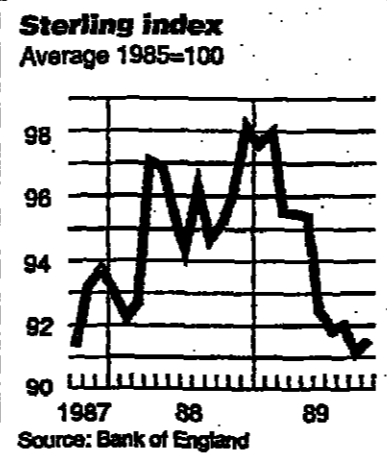
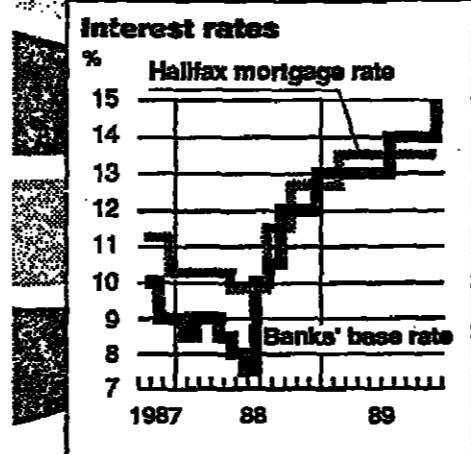
That market failures exist, particularly in training and research and development, is indubitable. Some of the ideas in Labour's Policy Review, particularly on training, are imaginative. Equally indubitable is the attraction of the Japanese model. But imitation of Japan is no simple matter. The UK does not have a Japanese labour force; nor will it have a government whose expenditures are only 33 per cent of gross domestic product; nor does it possess the same devotion to economic growth; nor a mandarin class as immune to political pressures.

## Employee ownership

The Labour Party has neither the intention nor the ability to introduce such features of the Japanese economy. In certain important respects - notably economic democracy - the review stresses movement in precisely the opposite direction. "Our ideal," the review asserts boldly, "is an economy in which enterprises are owned and managed by their employees or, where appropriate, by consumers or local communities."

The danger is that a new Labour government would once more try to combine a rigidly orthodox macroeconomic policy with an unwelcome (and, in the European Community context, probably illegitimate) attempt to guide the market. In the process, the beneficial legacies of the present Government, notably in labour law and labour relations and in the pressure on managers to manage, would be thrown away.

The focus must be narrowed to areas where market failures are clear and government can plausibly do something about them. A *mélange* of the guided capitalism of Japan with the worker democracy of Yugoslavia and a partial return to the traditional labour relations of the UK is far more likely to cause the failure of yet another Labour government than a great British economic success.



Peter Norman examines the pressures behind the rise in UK base rates

In sanctioning a one percentage point increase in British bank base rates yesterday, Mr Nigel Lawson, the Chancellor of the Exchequer, put party politics to one side and sought to re-establish his counter-inflationary credentials.

The move in base rates to 15 per cent followed immediately after the announcement of a one percentage point increase in the Bundesbank's important discount and lombard rates and was followed by a welter of rate increases elsewhere in Europe.

This enabled the Treasury to explain that what is likely to prove an extremely unpopular rate increase was part of European action to combat inflationary pressures.

It did not spare Mr Lawson the scorn of the Opposition yesterday. Mr Bryan Gould, Labour's shadow Trade and Industry Secretary, said the interest rate rise demonstrated "the absolute bankruptcy" of the Chancellor's policies.

The rate rise also guarantees a rough ride for Mr Lawson at next week's Conservative Party conference.

regarded as sound under fire, surprised even long-serving officials by his coolness in the crisis.

The rate increase, the eleventh since May last year, was triggered by the fear that the Government's anti-inflation strategy would be undermined by a slump in the value of the pound. It highlighted once again how far Britain depends on the foreign investors who finance the country's huge current account balance of payments deficit.

Events on the currency markets explain why the rate rise took place despite British inflation being on a downward trend. As measured by the retail price index, inflation peaked at 8.3 per cent in June. In August it fell to 7.3 per cent and the September figure, which will be published at the

end of next week, is generally expected to be around this level.

Yesterday the Treasury said the increase showed that it was taking no risks with inflation and erring on the side of caution. Officials said that the rate increase, which has doubled base rates since May 1988 and brought them to their highest level since November 1981, does not mean that Britain is necessarily heading for a recession.

But they repeated words first used by the Chancellor before the House of Commons Treasury and Civil Service Select Committee last April that he had never promised a "soft landing" for the British economy.

Yesterday's move must increase the risk of a hard or bumpy landing for the economy from its overheated state of last year. However, it is generally agreed that the state of the economy is extremely hard to call at present. Not only do opinions differ widely among economists in the City, there have also been differences of nuance between the Bank of England and the Treasury over future prospects.

Treasury officials explained yesterday that the economy has been taking longer to slow than anticipated at the time of the Budget in March and stressed that British industry continued to be in good shape. It is likely that senior officials in the Treasury advised the Chancellor to raise rates some weeks ago. Until the pound came under selling pressure, the Bank would have been content to stay with base rates at 14 per cent from a domestic point of view.

Mr Lawson's latest difficulties started just over a week ago. Ironically, news that Britain had run an unexpectedly high £2bn current account deficit in August began to shake sterling just as the Chancellor was about to deliver a speech to the International Monetary Fund which argued that current account imbalances did not necessarily carry implications for exchange rates.

For the markets, the August figure, coming on top of July's £2.2bn deficit, revived fears that the British economy, while slowing, was still too buoyant for its own and sterling's good.

Indeed since August, many economists in the City have revised their view of the British economy. Two

months ago, the slowdown had appeared to be running on course. Indeed, in some parts of the City, people were beginning to talk about the economy tipping into recession.

Data for July told of a 0.6 per cent drop in retail sales, a slowdown in the fall of unemployment and the first decline in the inflation rate for 19 months.

Statistics for June, released around the same time, told a similar story. Manufacturing output was down 0.7 per cent in that month while the amount outstanding of consumer credit had shown its smallest monthly increase since November 1986. There was even a decline in the monthly rise of average earnings in June to 9 per cent from 9.25 per cent in May.

Since then, however, evidence has accumulated that the British consumer has displayed remarkable resilience in the face of 14 per cent base rates. While retail sales have stayed low, spending on new cars and services has been strong.

Real consumer expenditure, forecast by the Treasury in its March Budget to increase by 3.5 per cent over the whole of this year, increased by 1.5 per cent in the three months to the end of June alone. Figures released yesterday showed that the savings ratio fell to 3.2 per cent in the second quarter from 5.2 per cent the quarter before.

Data since August has tended to suggest that the July figures were an aberration rather than a turning point. The August figures for M0, the narrow measure of money supply targeted by the Treasury, showed a seasonally adjusted 1.7 per cent rise - the largest monthly rise since November 1984. Preliminary estimates suggest that on a year-on-year basis, M0 increased by 5.5 per cent last month after adjustment for last year's postal strike. This is above the 1 per cent to 5 per cent target range set by the Chancellor in his Budget.

Bank and building society lending in August increased by a seasonally adjusted £2.4bn - well above the levels of previous months - with a record £4bn of new consumer credit being granted in the month.

Industry, which appeared to be showing signs of a steady slowdown in the first half of this year, is also performing robustly. A recent survey

by the Confederation of British Industry showed that capacity utilisation, although below its peak, is still higher than in the period of extremely strong growth known as the Barber boom at the beginning of the 1970s.

According to Mr Peter Spencer, UK economist at Shearson, Lehman Hutton in London, the slowdown in the British economy is a bit like the curate's egg - good in parts.

It is clearly hitting the housing market and parts of the retail trade, but company profits and consumer demand still look too strong for comfort.

Other economists, however, were arguing yesterday that there was no domestic case for the Government to tighten policy. Professor Alan Budd, economics adviser of Barclays Bank, said he saw a real danger that higher interest rates will achieve overkill. They also could exacerbate the inflationary problem that they are designed to cure by pushing up mortgage rates and feeding pressure for higher wages.

Barclays is already anticipating a one percentage point increase in mortgage rates in November and forecasts that this will push up inflation to 6.9 per cent in that month from an anticipated 6.7 per cent this month and a projected 7.3 per cent in September. Further mortgage rate increases, beyond those already in the pipeline, would push the headline inflation figure back above 7 per cent later this year.

Higher mortgage rates could trigger higher wage claims, making industry's response all the more important for success of the Government's counter-inflation strategy. The logic of yesterday's move was to bolster the pound, thus keeping industry under strong competitive pressure from abroad and stiffening its resolve to resist inflationary pay claims.

The lesson of yesterday's interest rate increase throughout Europe in the wake of the Bundesbank move is that no country feels it can afford to import inflation. The paradox is that not all countries can have a strong currency at the same time.

Mr Lawson's misfortune is to have presided over a period of economic growth in Britain that was both stronger and more inflationary than that experienced in its major trading part-

ners. Not only has this meant that damping down growth has been a more difficult and protracted exercise than expected by the Treasury. It means that some of the symptoms of excessive growth such as the current account balance of payments deficit, have persisted into a period in which other countries have started to take decisive measures of their own against economic overheating.

West Germany's action to raise its discount rate to 8 per cent and lombard rate to 6 per cent reflects deep-seated concern in the Bundesbank that inflation risks getting out of hand. West German consumer price trends appear unthreatening to British eyes. But the index rose by 3.1 per cent in September after 2.9 per cent in August, while growth has been powering ahead at an annual rate of more than 4 per cent.

The Bundesbank, like the UK Treasury, is fearful of an inflationary wage round and is also concerned that the West German economy will be given too great a stimulus from a net DM25bn of tax cuts due to take effect in the New Year.

It remains to be seen whether yesterday's Bundesbank move influences the West German wage round. It is likely, however, that Mr Karl Otto Pöhl, the Bundesbank president, will have read with mixed feelings of Britain's prompt one percentage point rate increase immediately after the news from Frankfurt was flashed around the world.

In Washington last week, he made clear that he disapproved of high inflation countries, such as Britain.

The Bundesbank's head probably heard with mixed feelings of Britain's prompt one percentage point rate rise

Italy and Spain, bolstering their exchange rates through extremely high interest rates at the expense of a traditionally strong currency such as the D-Mark.

Nobody is suggesting that Britain and its European partners are about to enter a period of damaging competitive interest rate rises. But Mr Lawson must be hoping that his latest move will finally dampen the appetite of the British consumer and curb the willingness of industry to pay out high wage increases.

The risk he runs is tipping the British economy into recession. The reward, if the economy now does slow decisively, is that he may still be able to prepare a recovery in time for the next election.

## All the news is German

■ Odd how much Germany is in the news at present at both ends: not just east and west, but politically and economically. The East Germans pour into the Federal Republic; at the same time, the Bundesbank makes the running on European interest rates.

It is mildly surprising how few people seek to put these events together and try to see them in sort of perspective.

One of the first points to note is that there is a certain amount of restraint on all sides. The East German Government has allowed quite large numbers of its people to leave, and to do so by passing through East German territory. That is quite a break with the past.

It is impossible to predict what will happen at the weekend when East Germany has its 40th anniversary and President Gorbachev is the guest of honour. Yet so far the East German regime has shown a reluctance to use force, and the population has been unwilling to provoke it to do so.

Europe seems to have learned some of the lessons of 1953 (the East German uprising), 1956 (Hungary) and Czechoslovakia in 1968. Matters are no longer settled by tanks.

Yet there is also a vacuum. No-one knows what the outcome is going to be: short term or long. No-one seems to be in charge.

There is restraint on the West German side as well. On the monetary front, it is no secret that there are people in the Bundesbank who would prefer a revaluation of the D-Mark rather than fiddling around with interest rates.

That is what would have happened at this stage of the economic cycle in the past. But the Germans play along with the European Monetary System. The result is irritation on

all fronts. Other Europeans do not like the Germans for putting up rates; some of the Germans regret that they do not have greater freedom of action.

In foreign policy, the West Germans can claim a great deal of credit. They have been at the forefront of détente, not just now, but also 20 years ago under Willy Brandt. Hans-Dietrich Genscher, the Foreign Minister, may have his critics in the west (especially in London) for seeming to push for too much too fast. Yet all he is saying is that the situation in central Europe cannot be allowed to stagnate.

I suspect a deep reluctance in the rest of the western alliance to accept this. Elements in the post-war settlement are falling apart. Nearly all of them centre around the Germans. There must be something acceptable between unification and the status quo, which is what we should now be thinking about.

## Twinning

■ The British Institute of Directors is broadening its views. Its members will now also be able to belong to the Kiev Business Club in the Ukraine. Through that - the Kiev Club being very cosmopolitan - they may also have access to other clubs in the Soviet Union, China and Vietnam. The arrangements are reciprocal and the Kiev Club is self-financing.

## Market logic

■ Fraser Forum, the Canadian publication dedicated to the promotion of competitive markets, has a tale about a man who continually failed to get his short stories accepted by the Canadian Broadcasting

## OBSERVER



"Trevor's a Nigel Lawson look-alike."

Corporation, which runs competitions in the genre. In frustration, he submitted stories by William Faulkner, Franz Kafka, Jack London, Maxim Gorky, O Henry, Sherwood Anderson and Luigi Pirandello, having changed the names of the authors and the titles. Those, too, were rejected by CBC Radio as being "unprofessional".

That, says the writer in Fraser Forum, is the case against public service broadcasting. It would never have happened in the private sector.

## Safe as houses

■ Building Societies are still very much in with the British public. A survey conducted by Swiss Reinsurance UK (Swiss Re) shows that over 70 per cent of those questioned would consider a building society when it comes to placing their savings. Next come banks which were mentioned by 26 per cent of respondents, only 15 per cent mentioned shares, and seven per cent personal

## equity plans.

The survey, which is about consumer attitudes to life assurance, is now an annual event and is undertaken by ICM Research. Among other findings, the number of people who would prefer to buy life assurance from a salesman in their own home has dropped from 27 to 21 per cent in the last year. The number who would prefer to buy it from a building society has risen from 20 to 28 per cent.

More generally, anything that is presented as "environmentally friendly" is in favour, even if it means paying more for it. British attitudes to the future of the European Community are all over the place, but 49 per cent of those asked expect the living standards to rise in the next 10 years. Just over 50 per cent think that the gap between rich and poor in the UK will widen.

## South bank

■ There are some awfully smart places south of the river. One of my more literary colleagues took me to lunch at a restaurant that was half old-fashioned gentleman's club, part wine bar and perhaps a touch Viennese, with newspapers on sticks. It is underneath some arches and must be quite hard to find.

The lunch was not at all bad. Afterwards I asked for a cigarette. "We only have cigars," said the lady. And, sure enough, she produced a tin of 18, nicely designed in the Victorian style and specially selected for the place. Useful tin to keep things in.

## Far country

■ From an Ohio college magazine: "While we were driving through Aberdeen we saw a number of people in ordinary clothes dancing in the street to the music of bagpipes. Richard said they looked like civil servants, but neither of us could think what they were doing." Highland Fling, perhaps?

## INVESTMENT DECISIONS?

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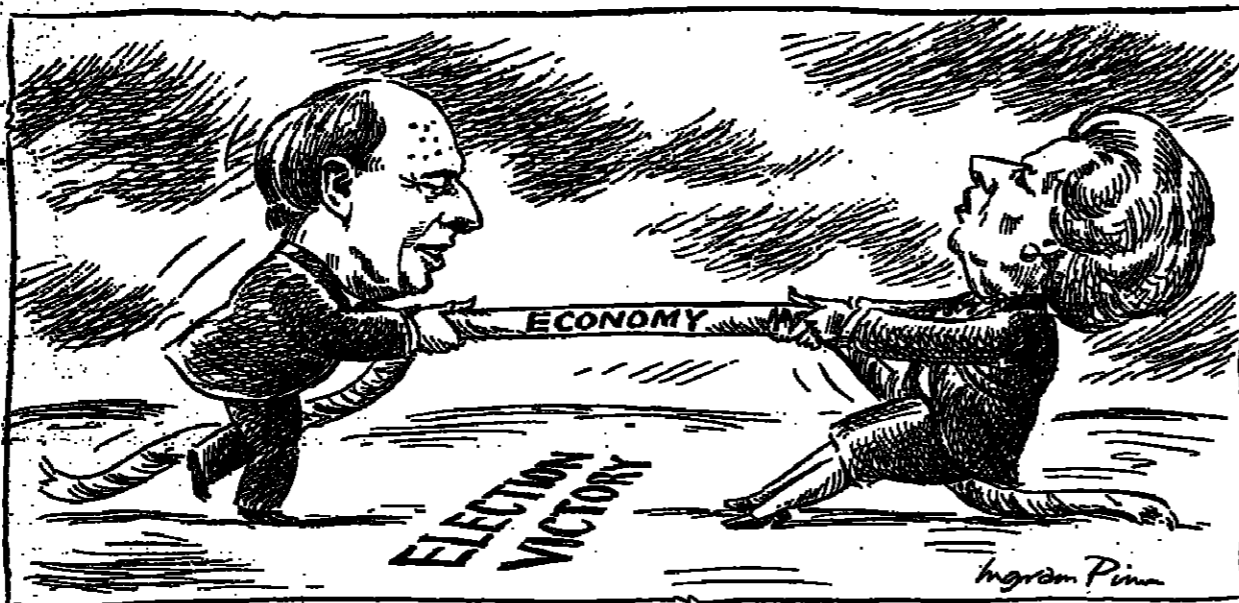
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## POLITICS TODAY



## The political roots of economic failure

By Joe Rogaly

Britain's economy will not be put right until its politics are restructured. This is being made clear once again as the Labour Party meets in Brighton this week and the Conservatives prepare for their conference in Blackpool next week.

Our political-economic weakness is evident from the briefest recollection of post-war history. The 1945 Labour Government seemed to promise a brave new world, but queues and rationing led to its collapse. The subsequent 30 years of "Butskellite" rule did little to prepare the economy for the globally competitive climate of the final quarter of the century. The Labour Government that disintegrated in 1979 left the policy in such an awful mess that the only option for the incoming Conservatives was a sharp swing to the right, and a strong attack on most vested interests. Now, it seems, the Thatcherite train is in danger of running into the buffers, leaving Britain with possibly the weakest supply side in the western world.

The principal reason for this sorry history is that the unwritten British constitution provides no reliable checks on the executive. A strong Prime Minister, backed by a decent majority in the House of Commons, can rule by arbitrary determination. He or she can usually ignore the wisdom offered by opponents or partners. This elective dictatorship enabled Mr Clement Attlee to establish the post-war Welfare State; it has been used, in an increasingly spectacular manner, by Mrs Margaret Thatcher in her unending effort to set aside the Welfare State in favour of individual responsibility and enterprise.

There are two ways of injecting checks and balances into a political system. The continental European way is one form or another of proportional representation. Most of the time this provides continuity around more or less centrist policies. Politicians can take the long view about expenditure on social services, education, and training. Except for a period of aberration in France they are not constantly nationalising and privatising, or "building socialism" and then subsequently destroying it. They are social democrats or Christian democrats by label, but the centrifugal forces inherent in the system against any impulse towards extreme deviations from the west European norm.

Thus the West German, French, Belgian, Dutch and even Italian governments are nearly always purely technical managers of what are unquestionably capitalist-based, liberal democracies with strong welfare traditions built in.

The US system is quite different. Its restraints on the executive are the bedrock of its constitution. The President's power is balanced by that of both Congress and the Supreme Court; the boundaries between the responsibilities of the Federal Government and the states are of the essence of the American way. There is plenty of opportunity for the two parties to exercise power simultaneously, with

the Republicans more often than not in charge of the White House and the Democrats in control of Congress.

The upshot is a constant exchange of technical managers around a central acceptance of liberal democracy as in western Europe. The commitment to welfare is weaker but that is perhaps as much due to long-standing political conviction as to the constitutional system.

The tendency of British politicians and civil servants is to sneer at the US system, and deride PR. "Look at how President Bush can't even get his capital gains tax cut through," they will say, adding, confidentially, "I was on the Hill just a week ago and they were saying how they envy us our swift ability to put a Budget through the Commons." Or, on this side of the water, we are told about how distasteful it must be to make deals with smaller parties.

What is not acknowledged is how easy it is for our swift, clean, efficient British system to make swift, dirty, inefficient mistakes. One result is that next week's Conservative Party conference will be preoccupied with a new constitutional deal for Britain, but there was evidence at the party conference in Brighton this week that the demand for technocratic management of a liberal democracy with welfare is beginning to be understood. At the very least, Labour may now be looked upon as a party that says it would aim to provide such manage-

ment, rather like Tory one-nation governments did in years gone by. It would do nothing in particular, but do it very well.

I say this guardedly. It is not yet absolutely clear whether the party has abandoned socialism because it sees its irrelevance to contemporary governance, or as a simple electoral ploy. Mr Kinnock has proved to be an excellent manager of electoral plays: his staff has stage-managed a conference that is almost Conservative in its smoothness. The party is, for the moment, united, apparently moderate-minded, and conscious of the need to dress well and present a nice smile in case the Conservatives manage the economy so badly that the electorate looks to it as an alternative government in two years' time. The possibility that this will happen has been a constant corridor topic this week. Nobody doubts that the Government will try to get interest and mortgage rates down before facing the voters again, but there is much learned debate about whether it will be able to do so.

If the Tories are bored in - if the price of pumping up the economy to win the 1997 election is the loss of the next one - Labour's present strategy is correct. On Tuesday Mr Kinnock made a speech deemed by his advisers to be suitable for a potential Prime Minister. Every day soothing resolutions have been approved, usually on

the strength of the votes of a handful of trade union bosses. The party stands for nuclear defence, unilateral disarmament, a strong role in Europe, mild restoration of "public interest" control over the major utilities, and, above all, education and training. Its handsome TV stars - Mr Tony Blair, with the shy public-school image; Mr Gordon Brown, round-faced, Scottish and affable; Mr John Smith, the very model of a kindly conservative Chancellor - are being groomed for vote-gathering action just as Mrs Thatcher put her own TV faces - Mr John Major, Mr Chris Patten and Mr Cecil Parkinson - forward in her recent Cabinet reshuffle. If only we had a consensus government they could together re-cast Neighbours, the smash-hit TV soap.

One difficulty with this strategy is that it is wide open to reasonable attack by the Conservatives. Mr Bryan Gould gave the impression the other day that Labour would demolish dividend payments in the recapitalised utility companies, thus reducing the market value of their shares. Mr Kinnock quickly sought to allay this fear. He may go further by putting Mr Gould, who is also good on TV, out of harm's way as spokesman on the Environment. But the question remains: what does Labour mean by "dividend"? What does it mean by "fair market price"?

The justification for the party's relationship with its paymasters, the trade unions. By their own standards the resolutions on industrial relations law are moderate, leaving some Tory law, particularly on pre-strike ballots intact. But when it comes to extending the right to legal strikes, what is a "lawful trade dispute"? Are these sensitive areas being disguised, or is the party really casting aside its historic passions? It is unfortunate for Labour that industrial relations policy is presented by Mr Michael Meacher, who can ruin any play for moderation at a hundred paces - but then his future in the Shadow Cabinet is unlikely to be bright. "Ambassador to Greenland," one Kinnock insider has suggested.

There is another problem. Even this week you could discern the great gulf that exists between the script that is being acted out and what lies in the hearts of so many of the people who have attended the conference. The right has been strengthened in virtually every speech. This was especially noticeable in the industrial relations debate on Tuesday. Outside the hall, in private conversation with Mr Kinnock's colleagues, I could find no one prepared to disown the word "socialism", although it is now redefined as, say, a propensity towards aiding the community where the market fails.

It is as if the Labour Party is not quite at ease with the state of its own conversion. It looks in the mirror and sees a social democratic party staring back, and cannot get used to it. Yet if it ever does, that will be a step towards the necessary restructuring of British politics, and all the more welcome for being so.

## LOMBARD

## Keeping Sid in the picture

By David Waller

IT IS A fundamental principle of UK company law that all shareholders - whether large institutional investors or private individuals - should be treated equally. There is a danger that the UK government will flout this in its plans to encourage listed companies to send out summarised versions of their annual accounts.

Earlier this year, the Department of Trade and Industry circulated a consultative document floating the idea that small shareholders who did not wish to be burdened with the full complexities of a report and accounts could opt for an abbreviated version of the same thing. The facility should be available for the accounting year to December 31 1989.

The justification for the move was partly that it would cost companies far less money to distribute pieces of A4 paper - on which the essential details are supposedly to be distilled - than to send out thousands of bulky annual reports. Also, the DTI argued, it would enhance understanding of the company's financial position among small shareholders by doing away with tedious essentials.

In principle, the initiative seems patronising in its assumption that small shareholders are not interested - or not capable - of making head or tail of a proper set of accounts. Moreover, it seems set to reinforce the divide between professional investors - located in the City of London and "in-the-know" and Mrs Thatcher's army of unsophisticated small shareholders.

The proposals appear flawed in detail, too. This applies to the mechanism whereby shareholders would have to make a special request - by filling in and sending off a pre-paid card if they wanted the full accounts - and to the suggested contents of the summarised report. True, these would be sanctioned by an auditors' report indicating whether the shortened version was consistent with the main report. But that is not enough.

In its consultative document, the DTI makes a distinction between what information it considers to be essential, and that which is merely desirable.

The distinction is eccentric - why, for example, should contingent liabilities be classified as desirable while a breakdown of directors' fees is deemed essential? Directors' pay is obviously of great interest to a small shareholder - but not as important as the future of a company as a giant lawsuit which would be disclosed as a contingent liability.

Perhaps the greatest omission from the list of essentials, is that there is no requirement to show earnings per share. This measurement is arguably the most important indicator of a company's financial performance. It seems absurd to leave it out in favour of pre-tax profits, a figure which is frequently grossly misleading, especially if a company has a habit of issuing shares to finance acquisitions.

Other oddities: companies would be required to show a fair view of the business over the year (this, at least, is regarded as essential), but there is no indication of what fair means. There is no requirement to show the effect of changes in accounting policies. Nor are the proposals on balance-sheet disclosure satisfactory, especially in the context of the currently fashionable manipulation of asset values via brand valuations.

In short, the government's initiative is likely to cause more confusion among small shareholders, not enlighten them. What is required is not less information, but better presentation of the information which is to be found within the pages of a traditional set of company accounts.

This is not really a matter for legislation. It boils down to commitment on the part of companies to getting the message across in a simple, comprehensible way. Some companies - notable the ASDA stores group or Young & Co Brewery - already present accounts which are well designed and informative in a way which is likely to please institutional investor and private shareholder alike.

The DTI should abandon its plans before it is too late, and introduce a generous prize for the best presented set of accounts instead.

## LETTERS

## Planning rebirth needs more than a single decision

From Mr David Hall

Sir, I wish I could agree with your leading article ("The rebirth of planning," October 5) that Mr Chris Patten's decision to reject the new town at Folkestone Wood and his accompanying statement represent a rebirth of planning. While there is much to commend in Mr Patten's revised approach to environmental management, he overlooks two vital requirements in planning as genuinely to be reborn.

First, neither the housing needs of the south-east nor

those of other regions will be met unless there is more effective strategic regional planning than that provided by the current county structure plans and inadequate "regional guidance." Mr Patten has urged the county councils to give serious consideration to new settlements. Even supposing they are willing, the councils should only be responsible for new settlements with an expected population of up to about 15,000. Settlements of 50,000 or more are needed to meet the housing needs of the south-

east, including those arising from the urbanisation attendant on the expansion of Stansted airport. Only effective regional strategic planning can allocate locations for these new, larger settlements.

Second, Mr Patten must state unequivocally his willingness to support the local planning authorities when they refuse permission for development on land which is not designated for a new settlement or which is allocated for development in a local plan.

You say that Mr Patten "is

moving swiftly to establish his green credentials." It would be a mistake to assume that a decision to reject a new town is, of itself, a "green" decision. Being green has as much to do with meeting social needs as it does with protecting the natural environment. Political parties and environmental pressure groups need to realise this.

David Hall,  
Director,  
Town and Country  
Planning Association,  
17 Carlton House Terrace, SW1

## Tax on credit to limit consumer demand

From Mr Stefan Zeile

Sir, The rise in base rates could prompt the Government to adopt a more imaginative approach: dampening consumer demand. At present, retailers offer a host of so-called "interest-free credit deals" on consumer goods. Legislation could be drafted to prohibit the inclusion of consumer credit cost in the retail price, and ensure that the granting of all credit must be subject to a separate credit agreement which cannot be cross-subsidised. This is likely to lead to lower retail prices for many consumer durables and thus improve the retail price index slightly.

Subsequently, all interest on consumer credit - including credit cards and personal overdrafts - could be taxed, thus increasing the effective rate of interest payable by consumers without increasing mortgage costs and without increasing the cost of credit to industry. An additional benefit would be the generation of extra revenue for the Government from the tax on consumer credit.

I am convinced that an increasing number of consumers object to the use of the word "free," not only in the context of credit, but also when applied to other items such as glasses offered with purchases at petrol. The correct terminology would be "included in the price."

Stefan Zeile  
Flat 15,  
21-23 Nassau Street, W1

## Some way to go

From Mr Roger Moody

Sir, Kenneth Gooding's article on mining and the environment ("Preparing for the green decade," October 2) is certainly to be welcomed. However, to claim (as Andrew Smith of UBS Phillips & Drew appears to do) that "big is beautiful," simply because only mining plants have the expertise to clear up the mess they leave behind them, is rather like proposing that only big guns can keep the peace.

Big mining has historically been part of the problem, not the solution. It has a history of squandering agricultural land, polluting air and water, causing the removal of huge numbers of indigenous peoples and of justifying large-scale projects which themselves destroy the environment: mega hydro dams, highways through tropical rainforests, new ports and smelters on pristine estuaries.

If "greening" is now to mean anything, especially for people in the Third World, it is not just the scale, but the nature of mineral extraction which must change. The control and management of any new project must be put, at least partially, in the hands of the local communities most affected by it. Among many other things, this requires that the mining industry cease its insidious campaigns against land rights in

## Rules for convertible currency

From Professor L.F. Pearce

Sir, Everything that Kevin Dowd says in his letter of October 4 on the subject of free banking and currency convertibility is important and correct. What is more important is what he does not say, either in his letter or in his book.

Troubles begin when one tries to work out just how the convertible currency could be reintroduced. At least two conditions must be satisfied. First, the holder of a convertible note which is in danger of losing its value needs to be able conveniently to exchange that note for the bundle of commodities which guarantees its value. He must then be able to exchange the bundle of goods so acquired for whatever it is actually worth to him.

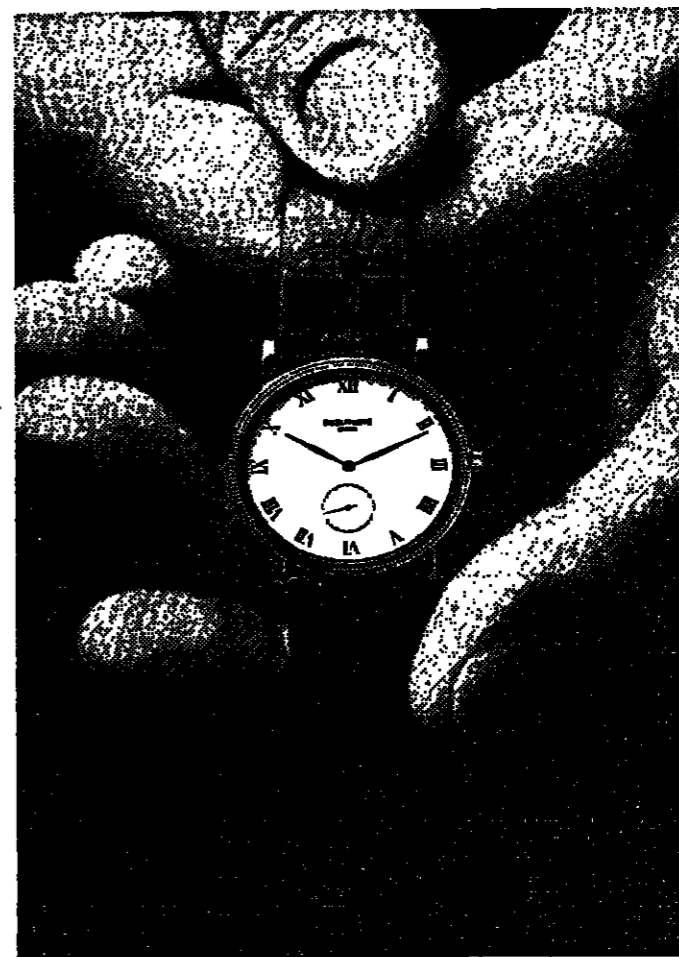
Second, the whole process must have the effect of reducing the number of notes in circulation relative to the quantity of goods so as to raise the

value of notes or at least to prevent it from falling. The existence of a convertible currency does not abolish the need to control the supply of money; rather it permits the establishment of a market mechanism to exercise the necessary control instead of leaving everything to officials who must act on insufficient information.

It is impossible to give unqualified support to any proposal for the re-establishment of convertible notes, however desirable that might be, until a clear account is given of the way it will work. If the proposer of a new monetary system knows how the foregoing problems can be solved, it is incumbent on him to tell us now. If he cannot, it is insufficient to claim that a free banking system will find a way.

L.F. Pearce,  
Department of Economics,  
University of Southampton

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# Dalai Lama chosen for Nobel Peace Prize

By Karen Fossli in Oslo and Colina MacDougall in London



The Dalai Lama greets well-wishers in Newport Beach, California after the announcement that he had been awarded the 1989 Nobel Peace Prize

THE DALAI LAMA, Tibet's spiritual leader, who fled to India in 1959 with thousands of his followers after an abortive rising against Chinese occupation of his homeland, has been awarded the 1989 Nobel Peace Prize, Nobel Committee officials announced in Oslo yesterday.

The Dalai Lama, revered by Tibetans as a god-king, was chosen for his opposition to violence in the struggle to free his homeland from Chinese domination. He has advocated peaceful solutions based on tolerance and mutual respect to preserve the historical and cultural heritage of his people.

Mr Egil Aarvik, a Nobel Committee member, said the award of the prize to the exiled leader demonstrated to all those fighting for peace and liberation worldwide that they should choose non-violent solutions.

He denied that the choice was intended as a rebuke to China following Peking's violent suppression both of the student democracy movement in June and of protest in Lhasa, the Tibetan capital.

"The Dalai Lama has come forward with constructive and forward-looking proposals for the solution of international conflicts, human rights issues and global environmental problems," the committee said.

In June 1988, addressing

members of the European Parliament at Strasbourg, the Dalai Lama put forward new proposals under which Tibet would gain internal autonomy and the Chinese retain responsibility for defence and foreign affairs. Peking initially agreed to meet the Dalai Lama to discuss the proposals, but its preconditions, followed by the June 1989 violence in the Chinese capital itself have led to the talks being postponed indefinitely.

In Newport Beach, California, where the spiritual leader is attending a conference designed to promote world peace and harmony, his immediate reaction yesterday was restrained. He was "pleased", Mr Paul Freeman, his spokesman, said.

A senior official of the his government-in-exile at Dharamsala, in India, Thupten Samphel said the award of the prize was "great news. It will help us wage our struggle in Tibet."

The peace award should help the spiritual leader head off calls for guerrilla warfare from the radical Tibetan Youth Congress which believes such action is necessary to draw a response from Peking.

The Chinese embassy in Oslo, expressing Peking's evident outrage that it will see as support for Tibetan dissidents, denounced the decision as interference in China's internal

affairs and called the Dalai Lama a political figure intent on "splitting the fatherland".

Wang Guisheng, a Chinese embassy official, said: "This has hurt the Chinese people's feelings," and reiterated the Peking's claim that Tibet has always been an integral part of China.

India, which is trying to improve its ties with China and has just announced a week-long visit starting on October 11 by Wu Xueqian, a Chinese vice-premier, cautiously welcomed the award. The Indian Foreign Ministry said: "We have always held the Dalai Lama in the highest esteem as a spiritual leader, a steadfast proponent of peace and an apostle of non-violence."

Tashi Wangdi, the spiritual leader's spokesman in Delhi, said he believed doubt that China's action against the student demonstrations in June had tilted the Nobel committee in favour of the Dalai Lama.

The Dalai Lama said recently that several hundred people were killed during three days of pro-independence demonstrations in Lhasa in March this year. Chinese officials say 21 separatist riots have cost 600 lives in Tibet since 1987.

## Estonia gives ground on voting rights

By Quentin Peel in Moscow

THE rebellious Soviet Baltic republic of Estonia yesterday retreated in the face of Moscow's anger and suspended clauses in its election laws which might have disenfranchised Russian-speaking immigrants.

However, the move was a compromise which will only drop the clauses for the forthcoming elections on December 10 and leaves the whole question of Estonian citizenship and voting rights up to another round of lawmaking.

Moreover, it will only provide a brief respite for the Kremlin from the clamour of nationalist demands from the Baltic. This weekend the non-communist Popular Front of neighbouring Latvia is set to adopt a formal platform seeking the ultimate goal of outright independence from the USSR.

The Latvian organisation enjoys overwhelming support from the indigenous population, although Latvians are now in a minority in their own republic. The ruling Communist Party there is deeply divided between its Latvian and non-Latvian wings.

The decision by the Estonian Supreme Soviet, after a debate broadcast on local radio, is an important concession not only to the Soviet leadership, but also in the face of strikes in the summer by Russian-speaking migrant workers.

Although most Estonians claim that the strikes were orchestrated by factory managers, they were clearly worrying enough to the Estonian Communist Party leadership to warrant a change of tactics. The election law restricted the right to vote to people with at least two years' residence in

Estonia, and candidates for election had to have lived there for five years. The five-year rule will remain in force.

The two-year limit would only have affected a relatively small number of migrant workers, but it would have denied a vote to the large numbers of Soviet Army soldiers stationed in the republic.

The praesidium of the Supreme Soviet in Moscow had declared the Estonian restrictions unconstitutional. That ruling, and the hostile declaration about the nationalist movements made by the Communist Party central committee in August, has worried many Baltic leaders about the danger of a Moscow backlash.

However, this does not seem to have deterred the Latvian Popular Front, probably the most radical of the Baltic nationalist movements. Supporters predict a unanimous vote on Sunday in favour of the independence proposal.

Meanwhile in the other major nationalist trouble-spot, the rail blockade of Armenia by neighbouring Azerbaijan continues. Soviet troops ordered to protect rail shipments of food, fuel and other basic goods for Armenia, which has been cut off from essential supplies for two months, have arrived in Yerevan, the capital, a regional news agency said yesterday.

The troops were sent to Armenia after lawmakers in the Supreme Soviet legislature adopted an emergency resolution ordering the ministries of defence and interior to restore rail traffic to the republic.

Tass news agency reported that 171 cargo trains were stranded in Azerbaijan, including 88 destined for Armenia.

## Westland to cut jobs and production in bid to reduce costs

By Paul Betts, Aerospace Correspondent, in London

WESTLAND, the UK helicopter manufacturer owned by United Technologies of the US, is to shed 15 per cent of the workforce in its technologies division and half a number of unprofitable product lines as part of an extensive restructuring programme to cut costs.

The cuts will involve 420 of the current total of 2,688 jobs in the Westland Technologies division, which supplies and services control systems and components for the aerospace, defence and engineering industries.

Westland was the subject of a fierce takeover battle in 1986 before being sold to Westland Sikorsky, the US helicopter manufacturer owned by United Technologies.

Mr Michael O'Loughlin, managing director of Westland Technologies, told employees yesterday that the company was planning to shed 345 jobs at its Yeovil plants in western England and a further 75 at Bournemouth on the south coast over the next few months.

Under the changes, Westland plans to discontinue some product lines at the technologies division and concentrate on profitable businesses.

The production lines affected were not disclosed because customers have yet to be informed.

The cuts, which the company said would include voluntary redundancies and early retirements, were sharply criticised by Mr Paddy Ashdown, leader of the SDP (Democratic) party and MP for Yeovil.

The restructuring of the division has been widely expected after the sharp fall in the division's operating profits in the first half of the company's current financial year.

Operating profits of Westland Technologies were halved to £2.6m on sales of £44.5m in the first half from £5m on sales of £46.7m in the same period last year.

Mr Alan Jones, who took over as Westland chief executive six months ago, warned in June that the company was looking closely at the division and would take "the necessary action" with unprofitable product lines.

Westland said yesterday that it had now carried out an extensive review of the operations of the division and the main problem was the need to cut costs to improve profitability.

The division, with turnover of £100m and operating profits of £3.5m in its 1988 financial year, comprises three companies centred on Normalair-Garrett which accounts for as much as 94 per cent of the division's operations.

Based in Yeovil, Normalair-Garrett is 52 per cent owned by Westland and 48 per cent by Allied Signal of the US. A company official also said Westland was expected to take a charge to cover the restructuring at the technologies division in its accounts for its latest financial year, which ended last month.

## Lawson's German lesson

As yesterday's rifle shot from the Bundesbank ricocheted around the world's markets, it was already clear that UK was the chief casualty. Higher base rates pose special risks at this point, both economically and politically. It was Mr Lawson's bad luck that the assault found him without options, just as the currency was hard against the magic number of DM3.00.

The market's working assumption is that this really is the last rate rise, but that 15 per cent will be maintained into next year. It could be wrong about the first part of that; meanwhile, the critical question concerns industrial and consumer confidence. It was unfortunate that yesterday should have brought evidence that new car sales have finally cracked under the 14 per cent regime, on top of the awful figures for new housing starts the day before.

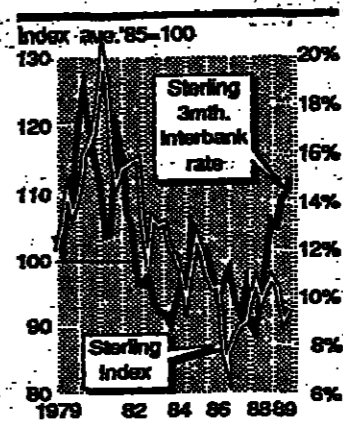
The likelihood is that UK equities have further to fall. The City's economists have for months been gloomier about prospects than the sector analysts, and so far they have been right. One or two will now be talking about recession, which will scarcely help the confidence of investors rising down their assumptions about corporate earnings. If the reaction to previous rate rises is a guide, 2,200 on the FT-SE is likely within the next week or two.

All the while, the market will have an eye fixed on sterling. All Mr Lawson did yesterday was maintain the relationship between UK and West German rates, and steering is still perilously close to its floor. If the currency dealers took another real run at it, the results would scarcely bear thinking about.

### Currencies

The length of time taken at yesterday's Bundesbank meeting suggests that the wires must have been buzzing between the world's central bankers as they tried to put a positive gloss on a highly unpopular move. The fact that West Germany increased its rates by a full point rather than a half, to the annoyance of many of its neighbours, argues that the US was not prepared to play ball and cut its own interest rates. Meanwhile, the silence out of Tokyo, where short-term interest rates have hardly budged, is deafening.

There may be good domestic reasons why Europe needs



higher interest rates; but there is little evidence yet that the central banks are much closer to solving the equally important problem of taming the dollar. Admittedly, the gap between US and West German interest rates has narrowed dramatically over the last year, which means that the cost of speculating against the dollar is not as high as it was. However, one of the real keys to reversing the dollar's strength lies with the Japanese, who control the biggest international capital flows. Until the Bank of Japan starts showing the same sort of hawkish behaviour as the Bundesbank, it is hard to see the dollar breaking down.

Maybe there will be something in today's US employment figures to justify the Fed's stubborn reluctance to ease its monetary stance. This would be music to the world's equity markets, which would clearly love to believe that this latest round of interest rate rises is the last. But that depends on the dollar behaving itself. Yesterday, it was continuing to be its disobedient self.

### Next

The stores sector has been waiting for a revival for a long time; judging by Next's figures, the resurgence will be a long time coming. Sales were still down on a like-for-like basis even before yesterday's base rate rise. The final stage of the link could then in due course be completed, with LVMH taking a further 12 per cent stake in Guinness, either through the market or in new shares, to match the Guinness stake in LVMH of 24 per cent. That would remove the final shadow from the share price, which at 572p is on only 12.5 times this year's earnings - surely not expensive for a company whose above-average growth prospects depend very little on the beleaguered UK consumer.

## Soviet plans 'rule out attack on Nato'

By David White, Defence Correspondent, in London

SOVIET PLANS already under way for reducing forces in eastern Europe will virtually rule out a surprise attack on Nato territory, the International Institute for Strategic Studies (IISS) concludes in the latest edition of its annual Military Balance.

According to the IISS - a London-based intelligence unit - this means that, from a Nato viewpoint, one of the aims of the Conventional Armed Forces in Europe (CFE) negotiations, under way in Vienna, will already have been achieved.

The unilateral withdrawals, however, which include pulling out six tank divisions, tanks from other units, artillery, bridging equipment units and forward-deployed combat aircraft, will not eliminate the Warsaw Pact's capacity for sustained offensive operations, the institute warns.

Removing the capability for sustained large-scale attack is another of the principal objectives in the Vienna talks.

Mr Francois Heisbourg, the

IISS director, said Nato would gain significant preparation time with Soviet reductions.

If Moscow and its allies were to embark on military action it would take them one or two weeks to marshal the necessary forces - "which in short-hand translates as no surprise attack," Mr Heisbourg said.

This depended on whether Nato needed the warning. He said the units scheduled for withdrawal, especially those stationed in East Germany, were "the sort... that Nato planners would like to see removed."

The 1989-90 Military Balance, published today, says there is "no reason to doubt the sincerity" of the Soviet programme.

The IISS warns that the CFE negotiations between Nato and the Warsaw Pact "may take more time than optimists currently envisage" - referring to the six-months-to-one-year target set by President Bush in May. "But the essential ingredients of the political will is manifestly present on both sides," the report says.

In its study of Soviet force strength, it says Moscow's military capabilities "will have been fundamentally altered" if the talks lead to results on the basis of current negotiating positions.

The report's cautious assessment of prospects for a START treaty to cut US and Soviet long-range strategic arms have been overtaken by what IISS experts described as "breath-taking progress" in recent weeks.

Mr Heisbourg said it was now "at least a possibility" that a START agreement could be ready before a conventional arms pact. But he warned that the ratification process in the US Senate would make it hard to handle two disarmament deals at the same time.

The report says the number of warheads on Soviet rail-mobile SS-24 missiles and road-mobile SS-20s has more than doubled in the last year to 465, while about 20 of the new Blackjack strategic bombers are now in service. But the US has also continued to replace

old systems, with deployment of MX missiles in silos and modification of B-52H bombers to carry cruise missiles.

Colonel John Cross, the institute's deputy director, said the overall nuclear warhead balance had not significantly altered.

Planned changes in Soviet force structure are not reflected in the Military Balance figures, which Col Cross described as showing "a point of high tide." Force levels were now already beginning to ebb.

The report includes figures provided directly - for the first time - by the Soviet Union.

But it warns that Soviet figures on defence spending, put in this year's budget at about Roubles 77.3bn (\$120bn), should be treated with caution.

Mr Heisbourg suggested relations between Moscow and its allies would remain in place for the foreseeable future, but countries such as Hungary and East Germany could no longer be considered allies of each other in any practical way.

## Quayle asks EC to help restrict missile proliferation

Continued from Page 1

was to make specific complaints. "This approach has begun to produce results in the case of Germany and Italy as a result of our actions over Concorde... I can assure you we intend to keep up the pressure."

The US Vice-President, asked what action should be taken against Messerschmitt of West Germany and Fiat's Smb-BPD

of Italy - both companies that have been accused of involvement in the Iraqi-Egyptian-Argentine Concorde 2 missile project - replied that the US had taken strong measures to ensure that the countries from which the companies operate would prevent them from co-operating in the Concorde project. The companies have, in any case, repeatedly denied the

sale of technologies for the project.

US anger over the possible Arianeespace deal coincides with the scandal over \$8m of unauthorised Iraqi export credits issued by the Atlanta, Georgia branch of Banca Nazionale del Lavoro of Italy.

Some of the credits were used to finance the shipment of apparently civilian technology

which has helped Iraqi military industry.

The US is actively seeking co-operation from Moscow to prevent further missile proliferation in the developing nations.

Interpretation of the MTCR, originally agreed by the US, Japan, West Germany, France, Britain, Italy and Canada, is a particularly thorny issue.

## E Germans escape bid

Continued from Page 1

on East Berlin's Alexanderplatz chanted "Russens raus," (Russians get out) and threw cobblestones at the police who broke up the demonstration only hours later.

Today, no East German would contemplate demonstrating for the Russians to leave. The crowds in Dresden shouted the name of Mr Mikhail Gorbachev, admired by them for his structural reforms and glasnost, due to arrive in East Berlin today.

But in the light of East Germany's present entrenched leadership, eruptions of eno-

tion in Dresden may have as little long-term impact on Mr Erich Honecker's orthodox position as the demonstrations of 1977.

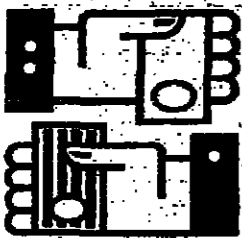
The demonstrators' success will depend entirely on whether the newly emerging East German opposition groups are able to forge links and make common cause with the enraged protesters in the streets.

Snare tightens on East German leaders, Gorbachev fears Berliners will like him too much, Page 2

### WORLD WEATHER

Area	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	
Algeria	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Amman	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Baghdad	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Bangkok	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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Dakar	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Dhaka	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Dublin	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Edinburgh	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Geneva	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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Paris	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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Rio de Janeiro	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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Seoul	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Singapore	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Taipei	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Tel Aviv	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Tokyo	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Toronto	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Ulaanbaatar	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Washington	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Yokohama	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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Costa Rica	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
France	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Germany	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Italy	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Japan	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Kenya	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Malaysia	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Mexico	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Netherlands	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Nigeria	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Poland	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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Russia	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Spain	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Sweden	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Switzerland	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
Taiwan	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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USA	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	
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Yugoslavia	17	18																									

# FINANCIAL TIMES SURVEY



Though the Arthur Andersen and Price Waterhouse merger has not gone ahead, the growth pressures

on the industry may continue to be irresistible. Michael Skapinker looks at the problems of multi-service firms and prospects for independent consultants

## Ideas people 'are different'

HAD Arthur Andersen and Price Waterhouse merged to form the world's largest professional services organisation, the management consulting industry would have been turned upside down. Because their merger talks have been called off, it does not mean that life will simply return to what it was before. Even before the two firms announced, late last month, that the differences between them were too large to bridge, some consultants were saying: "Whatever the outcome, the game of the competitive game will have changed."

Although this particular merger has not gone through, many consultants believe that the pressures pushing firms towards ever-increasing growth are still present, if not through mega-mergers then through less spectacular acquisitions. Ernst & Whitney and Arthur Young have merged to form Ernst & Young. Touche Ross and Deloitte Haskins & Sells are still discussing a merger in the UK. Their American partners have already endorsed a link-up.

"You've seen this consolidation in many service industries," says Mr Vernon Ellis of Arthur Andersen. "There are a number of factors driving it

that way. Globalisation is one. Clients are themselves seeking global or European solutions, whether it's a Japanese securities house or an American manufacturing company that wants to organise production and distribution in Europe."

In addition, he says, client companies no longer want consulting advice on some or other small area of their business. "More and more, we're asked to provide business solutions as well as advice."

At Coopers & Lybrand, which did not feature in the latest round of merger talks, Mr Paul Batchelor endorses this view. When a company wants advice on the single European market or when a state organisation is being privatised, it needs consultants who can cover the entire range of its activities, from information technology to human resources.

"The clients want someone who can solve their problems without really knowing themselves what those problems are," he says. "They are increasingly saying: 'we don't want to go back to square one every time we bring in a consultant.' That doesn't mean that you as a consultant get every piece of work. But it does mean that when you do get a



## MANAGEMENT CONSULTANCY

piece of work, you don't have to go in and relearn the business every time."

But what are the advantages of size in the management consulting industry? What advantages will a large consulting firm have over a smaller one?

"They will have the ability to invest. They will have the ability to carry more specialists in certain areas. Greater size will give them greater geo-

graphical coverage in areas where they might not have had it," Mr Batchelor says.

To many multinational clients, the attractions of a consultancy which has a strong presence in different countries are obvious. Companies that operate internationally expect their consultants to do so, too.

What, however, of the advantages of size when it comes to investment? What do consul-

ants actually invest in?

Mr Paul Thornton of the PA Consulting Group says: "We invest 6 to 7 per cent of our revenues in new products and services. Some of the investment is the time we spend gaining an understanding of what our market is looking for. But the majority is thinking through ways of developing corporate strategy or total quality."

Even if these arguments in favour of large consulting firms are accepted, the contention that clients want a consultancy offering the entire range of services is at odds with another view frequently put by those in the industry. This is that clients are becoming increasingly sophisticated purchasers and prefer to buy their services from a wide range of different suppliers.

### CONTENTS

Polarisation theory; recruitment business schools 2  
Big accounting firms; profile: Andersen Consulting 3  
Profiles: Hay Group, Bossard 4  
Sole practitioners; Ernst &

Young's corporate match 5  
US scene; Japan takes to "knowhow" 6  
Illustration: Robin MacFarlane  
Editorial production: Gabriel Bowman

"Consultancy is still very much a people business," says Mr Michael Grumberg, director of Stoy Hayward Associates. "The more experienced the clients are, the less they buy on name. They want to meet the team which will actually carry out the assignment. What they are buying is the capability of the individuals. They are buying the experience that is imbedded in the individual."

Stoy Hayward, a medium-sized firm, is part of Horwath & Horwath International. Horwath, too, announced last month that it had abandoned merger talks with Spicer & Oppenheim, so perhaps it is only natural for Mr Grumberg to promote the virtues of the smaller firm.

Consultants with bigger firms give support to his view, however. Mr Thornton of PA, Britain's largest consultancy, agrees that beyond a certain number of consultants, size can be counter-productive.

To make use of the hundreds of consultants a firm has in a particular area, it has to know who they are and what their strengths and weaknesses are. Consultants say they can keep information of this sort on a data-base, but a data-base cannot tell a firm whether or not a particular practitioner is going to get on with a client.

Added to this is the problem that consultants are highly mobile. "In consulting, people leave at the slightest whiff of trouble," Mr Thornton says. Had the Andersen-Price Waterhouse merger gone ahead, other consultants are convinced they could have picked up disgruntled defectors from both firms, if not entire practices in certain countries.

Apart from those who would have had to play second fiddle in a merged firm, many were convinced that the bad feeling between consultants and accountants at Arthur Andersen would have continued to plague the merged firm.

"There are significant people and cultural differences between accountants and consultants," says Mr Bruce Thompson, director of strategy and organisation at Arthur D Little in London. "Accountants are numbers people. Consultants are ideas people."

He cites three other significant differences. "Accountants need specialised training. Consultants must have broad-based training. The consultancy culture is autocratic. Consultants have to be more

democratic. Accountants build their experience in the company. Consultants bring prior experience to the company."

Because of the difficulties in combining a large number of consulting services, some firms consciously eschew the opportunity to move into new areas of consultancy. The Hay Group, for example, says that it will stick to what it knows best - pay consulting - adding only those services which support and augment this central expertise.

If the multi-service firm arouses scepticism, the notion of a group which offers all manner of services from advertising to marketing to consulting has suffered a grievous blow. The premier exponents of this one-stop shop were Saatchi and Saatchi, the advertising company. In 1984, Saatchi bought the Hay Group and in 1986 it headhunted Mr Victor Miller from Andersen to spearhead its drive into management consultancy.

Mr Miller, who was hired on a five-year contract, says he thought it would take some time for Saatchi to achieve its objective of world leadership in the consulting business.

Last June, however, Saatchi pulled the plug. It said that its consulting companies were up for sale, preferably as a unit, but separately if a single buyer could not be found.

Mr Miller insists that, given sufficient time, Saatchi would have made a success of consulting. It was just that, at present, Saatchi could not raise the funds to buy more consulting companies.

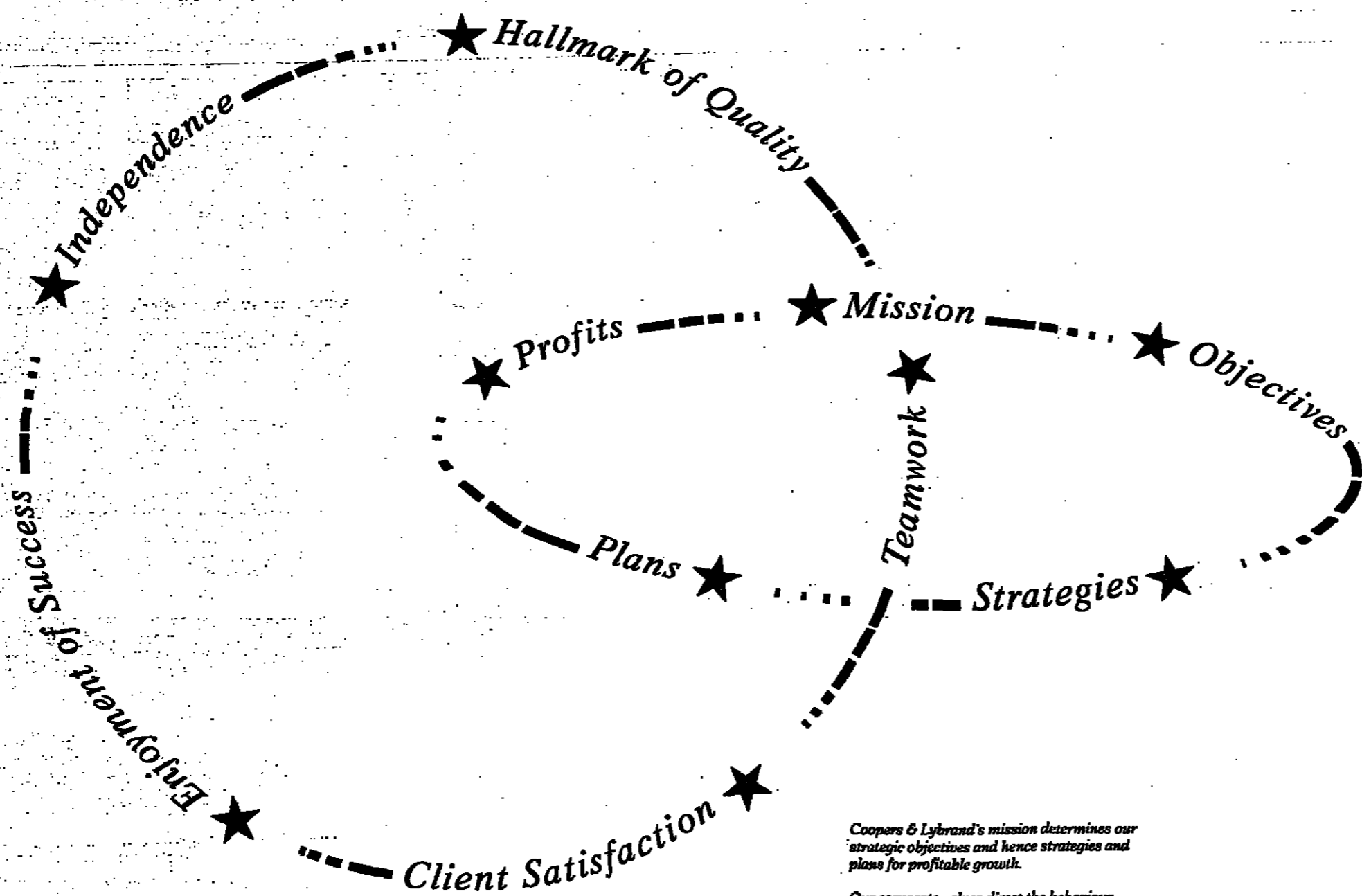
It appears, however, that there were strains between Saatchi and those in its consulting businesses - reflecting the different cultures of advertising and consulting. The consultants complained that Saatchi did not seem to appreciate how much investment of time and money consultancies need in order to expand.

All consultancies have difficulty finding proficient, trained consultants. They usually have to attract managers from industry or Master of Business Administration graduates and develop them in-house. It takes months, if not years, to become a competent consultant.

Unsurprisingly, many consultants view Saatchi's departure from the business with satisfaction. "For the Saatchi

Continued on Page 2

## RUNNING RINGS ROUND THE COMPETITION



Coopers & Lybrand is one of the foremost firms of Management Consultants and Accountants in the UK. We've consistently provided value to our clients in Commerce, Industry, Finance and Government in Britain, Europe and worldwide. We've helped them build competitive advantage for the future.

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## MANAGEMENT CONSULTANCY 2

Polarisation may only be a theory, says Michael Skapinker

## Survival of the middle class

ANYONE WHO talks to consultants will hear one prediction repeated over and over again. It is that the consulting business will polarise until there are only very large firms and very small ones.

The largest firms will crowd out the rest, the theory goes, leaving space only for small, nimble practices which will specialise in one or two carefully defined consulting areas. There will be no place for the medium-sized, multi-service consultancies.

There are two problems with this prediction. The one is that the mega-firms, the alleged agents of the destruction of the medium-sized consultancies, are themselves racked with problems.

For example, Arthur Andersen and Price Waterhouse recently abandoned negotiations to merge their two firms. Had the merger gone ahead, the resulting consulting firm would have proved extremely difficult to manage. The two firms have large differences in structure and management style. Even on its own, Arthur Andersen has had problems cobbling together a *modus vivendi* between its accounting and consulting wings.

The second problem with the prediction is that small, specialist firms almost invariably become medium-sized firms. Given the rate at which small consultancies acquire staff, the medium-sized firm is likely to be with us for some time to come.

Which is not to say that the medium-sized firms do not

have their problems. National firms which have dominated the smaller consulting markets reach a point at which they find it difficult to grow any further. When their clients develop international ambitions, they have difficulty serving their needs. It is at this point that clients might decide that a large international consultancy will be able to serve their interests more effectively.

In an attempt to extend their geographical reach, groups of European consulting firms have been forming alliances. P-E Inbucon, itself the fruit of a 1987 merger of two British firms, is heading several of these groupings.

In March this year P-E Inbu-



Jean-Pierre Ausimour

con announced the formation of the European Independents. It is an alliance of several European practices, including Boessard Consultants of France, Berenschot of the Netherlands, Kleinbaum and Partners of Ger-

many, Orga of Italy and Finco of Denmark.

It claims to be the biggest single source of management consulting experience and expertise in Europe, with 1,400 professional staff. An indication of the problems that EI faces, however, came in June when PA Consulting Group, Britain's largest firm, announced the purchase of Hartmark IRAS, a Norwegian consultancy which had originally joined EI.

To many in the consulting business, acquisitions, rather than alliances, are the way to build up a European consulting practice. The acquiring company can then monitor the acquired firm's quality standards. It can also be more confident that work will be passed between the two firms rather than jealously guarded by the consultancy that first served a client.

Mr Vernon Ellis of Andersen Consulting says that alliances might work "for advice-type consulting. The capabilities of such an organisation will be limited, however, when it comes to the implementation of solutions."

Some of the EI partners appear to share these doubts. Mr Jean-Pierre Ausimour, chairman of Boessard, whose firm is profiled elsewhere in this survey, says that EI has hoped it would be.

To be a truly transnational firm, he says, "you need a similar language, methods, implementation and doctrine. In practical terms that means

exchanges of consultants, similar training and methods, and stakes in one another." So far, Mr Ausimour says, EI has been "disappointing".

Mr Michael Harrington of P-E Inbucon says, however, that EI has already achieved some successes. The UK and Danish arms of the alliance have been engaged by the export organisation of one of the European Community countries to do a joint project on public procurement in Europe. He says that specialist groups within the various firms have already created their own links, dealing with areas like corporate strategy, executive recruitment and human resources.

He says that consideration is also being given to joint training of consultants within EI. He adds that the EI partners are thinking of establishing financial links by setting up a holding company.

P-E Inbucon has also been the leading partner in the setting up of the European Remuneration Network, aimed at providing a European data base on pay and remuneration.

ERN consists of seven firms with remuneration practices: P-E Inbucon, Berenschot, Kleinbaum, Business Services International of Italy, HIP Management Consultants of Belgium, Inbucon Ireland and Institut Technique des Salaires of France. It published an eight-country survey of pay in medium-sized companies last June.

A third grouping in which P-E Inbucon is participating is the European Consortium of

## Financial analysis 1988

## Geographical area

Geographical area	1988	1987
United Kingdom	350	285
European Community	17	11
Africa (South of the Sahara)	4	7
Rest of Europe	3	3
Middle East & N. Africa	3	5
Americas	3	2
Far East & Australia	3	2
Total	383	295

## Services (Fees earned in the UK over the principal fields in which member firms are engaged)

Services	1988	1987
Information Technology	132	92
Finance & administration	74	57
Corporate strategy and organisation development	42	28
Manufacturing management and technology	30	30
Marketing	29	17
Personnel management	16	23
Executive selection	15	10
Economic & environmental studies	14	8
Total	380	295

## Sectors (Fees earned in the UK between private &amp; public sectors)

Sectors	1988	1987
Private sector	280	194
Public sector	100	101
Central government	51	34
Local government	12	9
Regional authorities	22	15
Nationalised industries	4	10
International agencies	1	3
Total	380	295

Source: Management Consultancies Association

Logistics Consultants, an alliance of logistics consultants from most European Community countries.

P-E Inbucon's Mr Harrington says the consortium has helped several European and Ameri-

can companies plan their logistics strategies. These include a major international chemical company, a toiletries company, a paper company, a consumer electronics company and a computer company.

## BUSINESS SCHOOLS

## The real world

Most business schools allow their staff to devote a day a week to their consulting activities. Ostensibly, this is to give academics some contact with the real world of business and allow them to keep their teaching up to date.

There are other reasons, too, why business schools encourage their staff to act as consultants. It allows academics to increase their salaries significantly. The staff gain, and so do the schools, which retain academics who would otherwise be lost to higher-paying companies - or management consultancies.

Some schools have tried to ensure that they gain more from their staff's consulting than improving their teaching through contact with companies. Thus, at Barcelona's Institut de Estudios Superiores de la Empresa, staff hand over 15 per cent of their consulting revenues to the school.

Ashridge, parent organisation of the Ashridge Management College, set up its own consulting business nearly four years ago. Ashridge Management Development Services is still a small operation, with revenues in 1988 of £1m.

Mr Peter Reddowes, its director, says Ashridge started the unit because the division between consulting and management education was breaking down. In making recommendations to clients, consultants were increasingly suggesting management development courses. They often provided these courses themselves rather than send their clients to business schools.

The Ashridge unit provides human resources consulting and has not ventured into other areas of the industry. Concentrating on team-building, management development strategy and customer service, it employs seven full-time consultants, as well as 50 associates. Ashridge teaching staff who are not part of the unit continue to do their own private consulting work.

Among the projects carried out by the 1988 MBA class were a feasibility study of new products for Adidas UK, an assessment of the European financial services market for the Woolwich Equitable Building Society, and an investigation of the utilisation of resources at the Manchester factory of Metal Box.

activities, but this time from consultancy carried out by its students. Many schools require their students to carry out a consulting project as part of their Master of Business Administration degree.

Manchester's approach, however, has some unusual features. The first is that the students do not charge for the consulting work they do for the companies. The second is that the companies reimburse the students' expenses only.

Mr James Leontides, MBA programme, says because companies do not pay for the work, the school has more control over the sort of projects that its students undertake.

"So far schools say to their students: 'find something that the companies want you to do.' We say: 'do a project around a particular subject we decide in advance'. We don't charge because we want the discretion to do projects that help the students as well as the companies," he says.

MBA students at Manchester do their first live consulting project at the start of their two-year course. At other business schools, students tend to do a consulting project only at the end of their first year. The second year Manchester MBA degree is almost entirely devoted to consulting projects.

Among the projects carried out by the 1988 MBA class were a feasibility study of new products for Adidas UK, an assessment of the European financial services market for the Woolwich Equitable Building Society, and an investigation of the utilisation of resources at the Manchester factory of Metal Box.

Michael Skapinker

## RECRUITMENT

## Not for loners

tancy-based consultants Price Waterhouse and Andersen Consulting do take on large numbers of graduates, but to work in their information technology businesses, rather than in such areas as strategy and personnel. Coopers and Lybrand, exceptionally for an accountancy-based firm, employs some graduates to work in consulting areas outside information technology.

Even McKinsey, however, believes that consultants need education beyond a first university degree. After two years with the firm, its graduates

recruits go to business school to study for a Master of Business Administration degree.

Business school graduates are generally more attractive to consultancies than those with just a first degree. In the past five years, more than 30 per cent of MBA graduates from the London Business School have gone into consulting. Of the 1988 graduating class 44 per cent went over.

Management schools place a strong emphasis on developing analytical skills. They make extensive use of business case studies to teach their MBA students. Many consultancies believe that this training provides MBA graduates with the skills needed by management consultants, who need to be able to analyse a company's problems and attempt to provide a solution.

Merely providing a solution is, however, what some consultants regard as the least attractive part of the job. All management consultancies say they help their clients implement the suggested solutions. If solutions are to work, however, the client's managers have to implement them themselves. "Sometimes when I do a piece of work, I think: 'all I've left behind is a 1,500-page report'," says Mr Peter Marwick of McKinsey.

What sort of person should be a management consultant? A consultant should be "a hard-working individual, who is professional and not overly aggressive," says Mr Noel Tay-

lor, of Price Waterhouse. Should consultants be covertly aggressive? "You can put it that way," says Mr Taylor. Other consultants emphasise the importance of being able to operate as part of a team. Consultants have to work in groups and have to be able to get on with the clients. It is not a job for loners.

Nor is it for people who like a regular routine. Consultants spend much of their time at their clients' premises rather than in their own offices. They should be prepared to travel, both within their own country and abroad. "We insist on total mobility from our consultants," says Mr Dick White, recruitment manager at the PA Consulting Group.

Consultants should also be ready to work irregular hours. "If someone says 'I've got to be back home by 7 o'clock for my amateur dramatic society, I would suggest he or she shouldn't become a consultant,'" Mr White says. They also need to have, or develop, the ability to make presentations and speak to groups of managers.

Nevertheless, consultants insist that the job has many attractions. One of the greatest advantages is that they are not stuck with just one company or one managerial job. "What I've enjoyed the most has been getting experience of a lot of different functions and industries," says Mr Peter Grace, who has worked for Coopers and Lybrand for four years.

Within the consulting business itself, a variety of options is open to a new entrant. Information technology is the largest management consulting area. The Management Consultancies Association says that information technology accounted for 35 per cent of its members' fee income in 1988. Finance and administration was the next most lucrative sector, accounting for 21 per cent, followed by corporate strategy, manufacturing management and technology, and marketing.

Personnel management and training, a popular destination for would-be consultants, accounted for only 5 per cent of fee income, a sharp fall from 1987, when it made up 9 per cent of fee income.

Michael Skapinker

## Ideas people

Continued from Page 1

concept of the multi-service firm, this is the final curtain," says Arthur D Little's Mr Thompson. "The problem is that you do not get real economies of scale in either selling or operations if you offer services as diverse as consultancy, advertising, PR and opinion polling. The dynamics are totally different."

Whatever form their firms take in the future, business is still buoyant for consultants in the UK at least. The Management Consultancies Association said that its members' fee income rose 30 per cent last year to £383m. MCA members account for about two-thirds of the fee income earned by consultants in the UK.

The number of consultants rose from 4,382 in 1987 to 4,773 in 1988. Mr Brian O'Rourke, the MCA's executive director, said that "most members have reported difficulty in recruiting individuals of the right calibre and this, to a certain extent, has restricted growth."

"Another by-product of this shortage has been that members have not aggressively sought overseas work, and this is reflected by a growth of only 13 per cent in exported services. The one exception to this has been in the European Com-

munity, partly because of the move towards the single market. Here, work increased by over 54 per cent in the year."

The largest consulting sector last year continued to be information technology. Fee income for IT consulting rose from £92m in 1987 to £132m last year. Finance and administration was the second biggest sector, with fee income of £74m, compared with £57m.

A surprise was a fall in fees from personnel management and training consultancy.

## The Management Consultancies Association

The Association was formed in 1956. Its primary purpose is to ensure that management consulting work is carried out to exacting standards by requiring adherence to a code of professional practice. The Association also prides itself upon its stringent conditions for membership which relate to the stability, experience and qualifications of its professional workforce. These are verified annually. Approximately 70% of the management consultancy work known to have been undertaken in the UK in 1988 was carried out by members of the Association.

## The services provided by Members of the Management Consultancies Association include:

- Corporate Strategy & Organisation Development
- Marketing Sales & Distribution
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- Finance & Administration
- Executive Selection
- Personnel Management & Training
- Information Technology
- Economic & Environmental Studies

## Confidential Client Information Service

The Executive Director of the Management Consultancies Association maintains records of the specialist skills and industrial experience of member firms. He is in a position to provide potential clients with a shortlist of member firms whose project experience matches the task in view. Such advice is impartial and confidential.

For further information apply to The Executive Director Management Consultancies Association Ltd 11 West Halkin Street, London SW1X 8JL Telephone: 01-235 3897 Fax: 01-235 0825



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## MANAGEMENT CONSULTANCY 3

David Waller considers the prospects of big accountancy firms riding on the gravy train

## The growth rate may be hard to maintain

IN RECENT years, management consultancy has been something of a gravy train for the big accountancy firms. The so-called Big Eight managed to build on their traditional businesses as auditors and tax advisers to become all-singing, all-dancing consultants, able to provide advice on everything from computer technology to human resources.

Helped by their vast client bases, their regional networks, their skills in recruiting for "people" businesses, and structural upheaval in the public sector and the City of London, the firms have enjoyed very rapid growth in this (relatively) new area.

A survey by Deloitte, Haskins & Sells suggests that the average annual growth in fee income from 1985 to 1987 was over 40 per cent — higher than the rate of growth achieved by any other category of consultants.

With the rapid growth came problems: problems of retaining and motivating staff, of finding ways of differentiating one firm's range of products from another's, of staying profitable while expending huge sums on research and development. It is only now that the firms are seriously addressing these difficulties, in many

cases adapting their structures to cope with a more competitive marketplace and more discerning clients.

There is another dimension of upheaval and uncertainty caused by the consolidation of the international professional services industry. This year has seen six of the Big Eight enter into merger talks with — at the time of going to press — only one of these pairs of firms sealing the link-up.

This perhaps gives the new firm, Ernst & Young, created out of Arthur Young and Ernst & Whinney, an opportunity to challenge the majors as their seemingly interminable merger talks ramble on, to the bewilderment of clients and the dissatisfaction of staff.

Moreover, there are the challenges posed by the imminence of 1992 and all that this totemic date means for business in the European Community.

Arthur Andersen, the world's largest MC firm by any measure, is maintaining its traditional aggression, not to say arrogance, in respect of its competitors. "The other Big Eight firms are stuck in the 1970s or in the early 1980s," argues Mr Keith Burgess, partner in charge of the UK practice, "they put their feet in the footprints we leave in the snow."

Andersen has been in consultancy longer than any of the other firms, specialised (in turnkey Information Technology projects) earlier than the others and implemented a worldwide management structure which only Price Waterhouse out of the other firms has come halfway towards emulating. According to Mr Burgess, staff turnover — the bugbear of the industry — is down to a modest 12-14 per cent a year.

Perhaps Mr Burgess has reason to be complacent. After a titanic battle last autumn at the inter-galactic level of the firm, Andersen was split into two, into consulting versus the rest. The split consolidated MC's power base in the firm, and the restructuring was designed so that the consultants would no longer have to subsidise the less dynamic auditing business.

"Andersen is totally confident of its strategy," Mr Burgess maintains, "a nuclear bomb could not knock us off course."

So confident of its strategy that the merger with PW was abandoned. One of the major obstacles to the match was that Andersen did a lot of consulting work with and for PW audit clients such as IBM. Something would have to have

given: the audit of the consulting. Neither side was willing to make the necessary compromise.

For Mr Pat Kiernan, Mr Burgess's opposite number at Price Waterhouse, it is business as usual after the failure of the merger talks. The first sign of this was the formation of a new European financial ser-

vice practice last month — a follow-on from the internationalisation of the PW practice as a whole last year.

Ernst & Young has got off to a good start. This new firm has suddenly found itself in the big league, with worldwide professional staff of some 3,500 — larger than PW and nudging up against Coopers & Lybrand (with 3,056 staff according to E&Y's calculations) and KPMG (4,026). As explained elsewhere in this survey, the UK business has been refashioned along matrix lines but Mr Clive Williams, a former senior consultant at C&L, intends to maintain the flavour of a boutique about the constituent parts of the business.

Deloitte and Touche Ross, having agreed a merger in the US, are unaccountably still talking in the UK. The link-up would bring together two of the smaller MC practices to create a medium-sized one.

There is clearly scope for growth: the combined practice will end up being the biggest firm in the UK, the bulk of its fees coming from audit clients to which it ought to be possible to sell consultancy services as well.

This, according to Mr Paul Batchelor, director of business and international development, has now fallen to 18 per cent and is still dropping, largely due to an intensive programme to inculcate shared values in the consultancy staff. The firm, which has done a great deal of privatisation business, is proud of its matrix structure, which it believes, makes it able to respond to any business problem.

KPMG — familiarly known as Peat Marwick in the UK — has introduced a new structure as of the beginning of this month. This divides the practice into four groups — IT, financial management, human resources and strategic services. Within these groupings, industry specialists are to be found.

Mr Colin Sharman, senior consulting partner at KPMG in the UK, predicts that the market for MC will continue to grow at 20 to 30 per cent per annum over the next few years, assuming there is no recession. Even if that is the case, upheaval in the accounting profession combined with an increasingly sophisticated customer base will mean that the firms will not find it so easy to grow at the same prodigious rate as in recent years.

George Shaheen, managing partner, Andersen Consulting

## PROFILE: George Shaheen

## At the top of the tallest tree

AT THIS age of 10, one of George Shaheen's tasks at his father's grocery in Peoria, Illinois, included placating an old lady who complained that her pork chops had too much fat.

Now, as managing partner of the world's largest management consultancy practice, arbitration is one of the skills he needs to manage this firm where the consultants were recently at war with the accountants over compensation levels.

In 1986 Andersen lost its US consultancy chief, Mr Victor Miller, when he agreed to build up Satchel and Satchel's new consultancy practice. Mr Miller says that when he joined Satchel, consultants from a number of firms approached him in the hope of finding

profession's revenues and international practice, while the others will serve niche markets out of boutique practices.

He does not think that the fact that few firms will be able to serve this kind of marketplaces will be anti-competitive. "It's not a question of choice, it's a question of who has the expertise and the ability."

"We don't just give advice, we have to implement it and that is why we need to be able to have an efficient method of service delivery. I can send electronic mail out to a dozen partners across the world and within 72 hours they will be here without even knowing why they were called," he says. "For the opportunity to compete in the global market the small firms will have to trade their freedom of expression for the culture of the big firm. Andersen is successful because it is a machine, an efficient and nimble machine."

"Our existence depends on our ability to serve the market," Peter Drucker recently said that consultancy had to focus on what is central to its marketplace and our market is international business."

Likewise, consultancy on the Andersen scale is itself an international business. Last month Mr Shaheen found eight hours to spend at home in San Francisco in between a week in New York and a week in Tokyo. Not long before, he was working alternate days in Chicago and New York.

Right now, he spends most of his time in New York as Andersen tries to thrash out a possible merger with Price Waterhouse. Although the firm is and will continue to be administered from Chicago, Mr Shaheen expects to spend most of his time in New York after the discussions and because it is closer to Europe.

In the future, he hopes to use teleconferencing to network the major offices around the world so that he does not have to spend so much time in aeroplanes.

He has no social life. "People ask me why I don't join a club. I say I don't need to, I already belong to a men's club, Arthur Andersen's." But he does not

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expect it to stay that way too long.

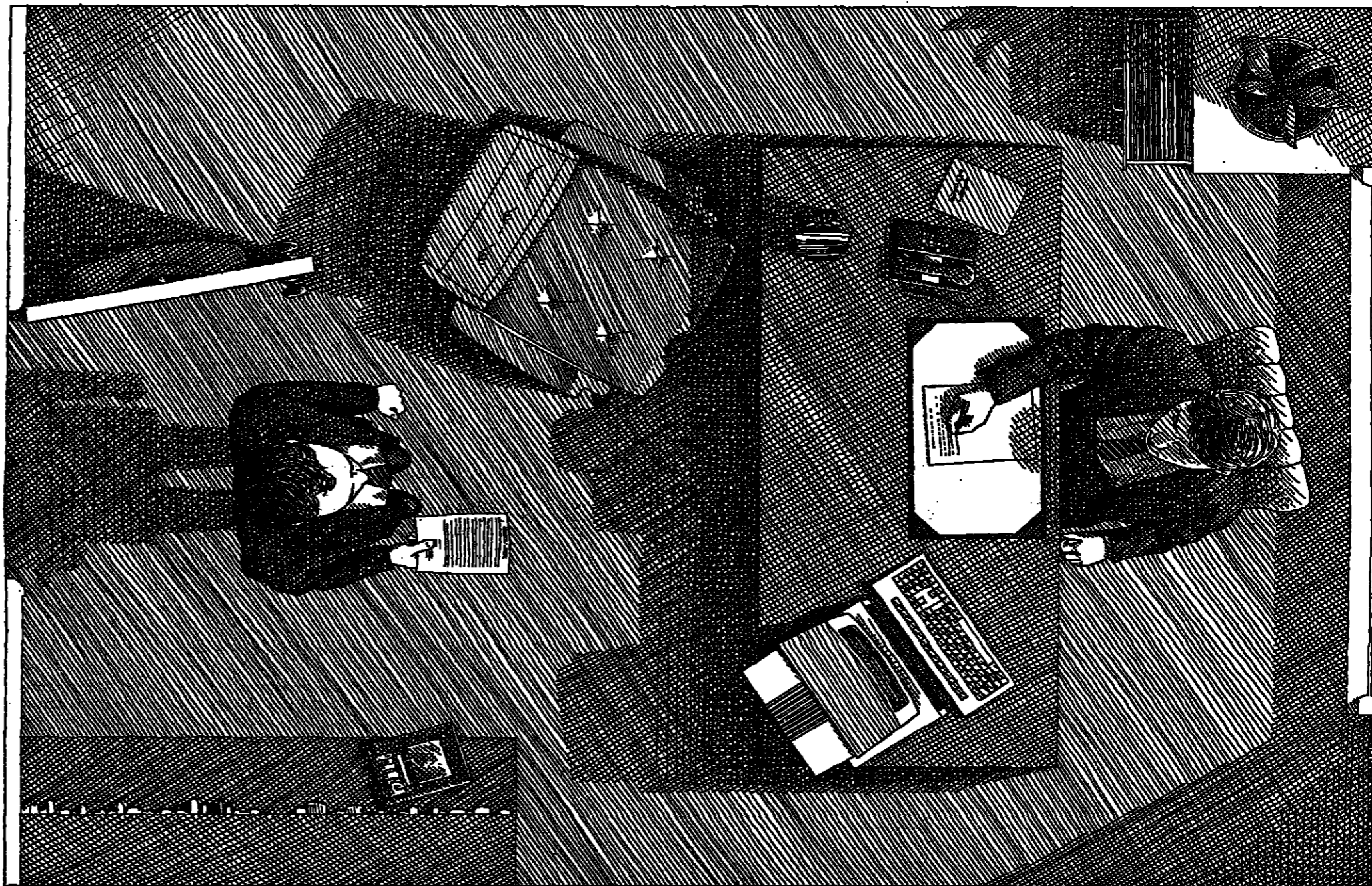
"Half of our new recruits are women and so are a third of our managers. I believe that the salvation of American industry will be women."

And they will probably have accountancy or finance backgrounds, despite the fact that US consulting began as an offshoot of engineering. Mr Shaheen himself is somewhat of an oddball as a marketing graduate, but he says that if he had to start all over again, he would study accountancy. "The ability to manage a company depends on the ability to understand its financial reports," he says.

His major tasks in the near future will be making strategic alliances for the firm and investing \$250m over the next year in developing both old and new practices. While the firm takes on new work, he expects to continue redefining its strategic goals.

"Over the last few years changes in the firm's strategy have meant that we have all gone through three or four different jobs. This is partly a function of the fact that we are dictated by the market which we serve. It defines our job and it regulates us," he says.

Pratap Chatterjee



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work which would give them more independence and better compensation.

Mr Gresham Brebach followed Mr Miller but resigned under a cloud for conspiring to defeat a proposal that would discourage defectors. He took six top partners from the firm with him and set up a new consultancy with Mr Miller's help.

Andersen's partners held emergency meetings to try to stem their losses. Their solution was a semi-independent consultancy practice where consultants could be paid extra out of a special pool of funds and would answer to one worldwide consultancy chief. The man they selected was Mr Shaheen.

Andersen's problem was that the consultants were too successful and sharing management with the accountants resulted in conflict. Their solution was autonomy or what they called the strategic-business unit. Mr Shaheen says that the firm is willing to divide itself again if practices demand it.

But he insists that while management may be separate, the firm will continue to be monolithic. "Market differences will always exist but time will force a common ground," he says. He points to the dissolving trade barriers in Europe. "As a result of a free movement of people and goods, practices will have to become standardised or they will be an impediment to progress."

Andersen has its own assembly line for partners at a converted girl's school in St Charles, Illinois. Every single partner in the firm has to spend time there learning the ropes.

The independence of the practice from the audit firm has other advantages. Originally, as part of an accountancy-based practice, Andersen had to toe US Securities and Exchange Commission rules that forbid it from going into joint ventures with companies that the firm audits. This would have prevented a joint venture with a large computer company which was also an audit client.

Despite their dominant position, the large accountancy firms account for a mere \$40m of the total industry revenue of \$900m.

In the consulting arena today it's very important that firms align with each other. We're seeing it with boutique practices and we're seeing it with firms in a dominant position like ourselves, in order to strengthen our hand," says Mr Shaheen.

He predicts that four or five large firms will dominate the

## MANAGEMENT CONSULTANCY 4

PROFILE: Bossard, the French-based non-specialist firm

## Miracles in small stages

THE ANGLO-SAXONS make life far from easy for French management consultants. The problem is that non-specialist consultants such as Bossard, which is one of the three largest French-based practices, appear trapped between the scale of the big accountancy-based companies and the expertise of the American strategic consultants.

Mr Jean-Pierre Auximour, chairman of the board of the Bossard Group and its division Bossard Consultants, admits that the European generalist practices risk being squeezed. "It just isn't practical to compete with the Big Five in their areas of strength," he

## Bossard Consultants: five years of growth

Turnover	Consultants
1984 FF105m	163
1985 FF127m	180
1986 FF163m	215
1987 FF210m	250
1988 FF285m	380

admits. "Taking on Arthur Andersen in information technology would be ridiculous."

Mr Auximour explains that the answer for the European independent consultants is a combination of specialisation and internationalism.

As clients become more international, so do their requirements, he says. In order to survive, the European consultants can no longer afford to provide services in one country only.

"The advantage we have

over the US-based strategic consultants is that we are French - part of the European fabric," says Mr Auximour.

"But if we want business from larger companies, even in France, that local expertise is no longer enough," he says. "We need to show that we are international. That means duplicating our local expertise elsewhere in Europe."

Bossard has had international ambitions for a number of years. It already has offices in Madrid, Barcelona, Milan and Lausanne. The Madrid office, which has about 35 consultants, has been established for 20 years and is highly successful, says Mr Auximour.

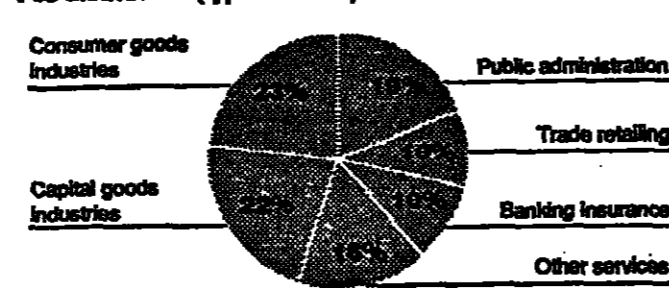
Other foreign offices have not done as well, however. Bureaux in Brussels and New York have been closed. Brussels proved too close to Paris. The New York office, which was established to help European companies set up in the US, lost \$500,000 in 1987, the last year before it was shut.

Mr Auximour explains that the demand for its services was insufficient to make it viable. Another part of Bossard's international strategy has been the creation of a series of international alliances with other consultants within the context of European independent firms such as P-E Inbuc in the UK and Kleinbaum in West Germany.

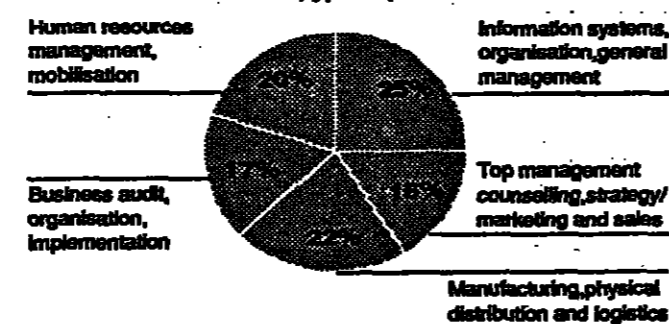
"These early links have been disappointing and certainly less successful than we had

## Bossard Consultants

## Fee distribution (type of client)



## Fee revenue distribution (type of practice)



originally hoped," says Mr Auximour. "The association was too loose. There are no financial links, and there were few areas where we shared clients or expertise."

"If such associations are to work, we have to create a single firm with common interests," he says. "We need similar language, methods, implementation and doctrine. That is necessary if clients are to use us."

Mr Auximour explains that, for such an association to be a success in practical terms, it needs common training programmes, exchanges of consultants and similar methods of work.

In addition, Bossard would expect to take equity stakes in other companies and eventually merge with them. The partnership would be expanded so that all parties would feel committed to the enterprise. The company is hoping to link up with an American firm which is interested in entering the European market and, as yet, has little experience there.

Bossard is also looking for links with firms in northern Europe where the consulting markets are more developed than in France. A recent study by Eurostat Data, the French market research company, estimated that the French market for management consultants in 1985 was worth \$344m compared with \$87m in West Germany and \$55m in the UK.

Because of the size of the market, the UK is one possible area for expansion, but Mr Auximour believes that West Germany is more attractive because consulting there is more technical and practical, the competition is less intense and the industry enjoys higher

margins than in the UK. "The problem is that the Germans do not really respect French consulting. In Germany, the French are known for their wines, not their consultants," admits Mr Auximour.

In the meantime, Bossard is making its own internal organisation less French. In particular, the company's recruitment policy has become increasingly international. The company now takes on only candidates who speak English - a third of meetings at the firm are not in French.

As a result, as many as 50 of the consultants in Paris are not from France. Mr Auximour points out that this is a radical change from 10 years ago when only five people there did not have French passports.

Mr Auximour believes that this internationalism has helped the company's organic growth. He points out that last year the company achieved a 25 per cent growth in turnover. And he expects the company to reach a turnover of FF750m (\$72m) this year compared with FF655m last year.

"We are specialising in areas of high growth," he explains. "These are areas such as health, specialist information technology and public administration which will be the high growth areas in the years to come. Public administration, in particular, remains inefficient in France - it remains far too unionised here."

The main method by which Bossard can differentiate itself from its competitors, says Mr Auximour, is not by offering different advice, but by successfully implementing it.

"The French don't ask enough from their consultants," he explains. "They tend to be attracted by fashions, which are often sophisticated and seldom efficient. The French want miracles and go for the most modern thing. In general, there's far too much rhetoric - if the French could put all their fine words into practice then, we would be the Japanese of Europe."

"We need to be practical and realise that miracles happen in small stages," he says. "Companies will pay for simple but efficient advances."

Paul Abrahams

PROFILE: a leading remuneration firm, put up for sale by Saatchi

## The Hay end of the line

A COUPLE of years ago, a Canadian bank asked Mr Terry Lynch to help it introduce an incentive pay scheme. Mr Lynch, a consultant with the Hay Group, persuaded the bank to let him do a survey of employee attitudes first.

The survey revealed that staff had no confidence in their managers' abilities to measure their jobs or their performance. He persuaded the bank to spend two to three years preparing the ground for an incentive scheme before introducing it.

The incident helps to explain why Hay felt it had to start doing more than simply classifying employees' jobs and saying how much they should be paid - the services it has traditionally provided.

Mr Lynch argues that staff remuneration cannot be viewed in isolation from employee morale and organisational structure. Ten years ago, Mr Lynch estimates, Hay derived 80 per cent of its revenues from remuneration work. Today the figure is 60 per cent, with the remainder coming from consulting on other personnel issues.

Mr Lynch is no longer based

Trying to achieve the target was "like driving with one foot on the accelerator and one on the brake"

in his native Canada. Today he has an office opposite Victoria Station in London, from where he heads Hay International, covering all the firm's operations outside the Americas.

Although Hay was founded in the US as long ago as 1943, it did not set up its first foreign offices - in Canada and the UK - until the 1960s. Neither the move out of the US nor into other areas of consulting was planned. Both were a response to demands by clients. Hay's customers were active outside the US, so Hay had to follow them.

The firm now operates in 27 countries. It employs 1,400 consultants and had revenues worldwide of \$277m last year.

Hay now faces another challenge: a change in ownership. In 1984 Saatchi and Saatchi



Terry Lynch, the head of Hay International

purchased Hay as part of the advertising group's drive into management consulting. Saatchi believed that customers were increasingly keen on buying all their services from the same group of companies.

By the last financial year, management consulting accounted for 22 per cent of Saatchi's revenues. Hay was the group's biggest consulting firm, providing 50 per cent of Saatchi's consulting revenues.

To become a world leader in international consulting, Saatchi needed to buy some more consultancies. Instead, in June this year, Saatchi said it was bailing out. Its consulting businesses, including Hay, were put up for sale.

Four months later, Hay is still waiting to find out who its new owners will be. As its senior managers are still employed by Saatchi, they cannot speak openly about their relationship with the advertising group. But clearly, it was not always a harmonious one.

Mr Chris Matthews, the Hay Group's chairman, says the root of the problem was that Saatchi was demanding a 50 per cent profit increase from Hay in the current financial year. He regarded the target as unrealistic. It was, he said, "far ahead of what the industry was doing and far ahead of what we had done in the past."

Trying to reach that goal required a large investment in new consulting staff who then had to be trained. It would be a while before they would be able to operate as effective consultants. Under these circumstances, trying to achieve

Saatchi's profit target was a bit like "driving with one foot on the accelerator and one on the brake," Mr Matthews says.

Whoever the new owner is, Mr Lynch believes that Hay should continue to develop services which supplement the company's traditional strength in remuneration consulting.

The firm helps clients with their human resources planning and also with issues like executive succession. Mr Lynch says it would be logical for Hay to offer management and employee training, which it does only in a small way at the moment.

Developing a training department using Hay's existing resources would be difficult, however. He says that at some time in the next few years, the firm might consider buying a training company.

He thinks it is important, however, for Hay to stick to the things it does well. He draws a long line on a piece of paper. At one end he puts

strategy consulting, of the sort done by McKinsey. At the other end he puts the implementation of company strategy, which is where he puts Hay's remuneration consulting.

Hay has moved some way towards the McKinsey end of the line, but has no intention of going all the way. "We've been pushing up towards the McKinsey end and we think there's a reasonable point we can push to. But beyond that we're just not credible," Mr Lynch says.

Hay is not interested in providing strategy advice to top management in the way that McKinsey, Bain, L&K and the Boston Consulting Group do. Once those firms have helped the company plan its strategy, Hay thinks it can make its money implementing that strategy.

"We're more than happy to follow in behind McKinsey," Mr Lynch says.

Michael Skapinker

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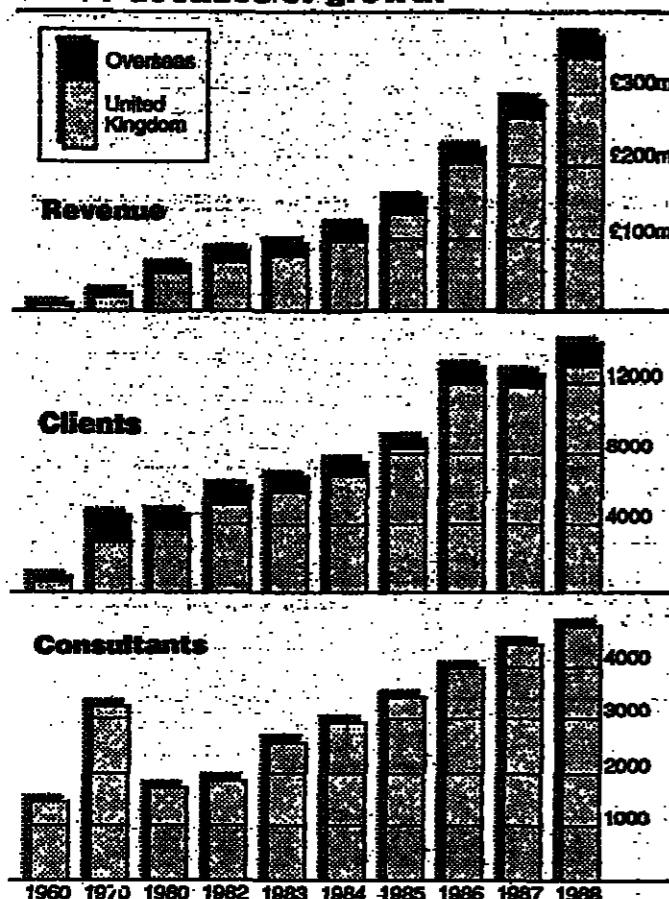
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## Three decades of growth



These figures for management consultancy and those for the statistics available for public companies show that the industry has grown rapidly since its formation in 1960. Source: Management Consultancy Association

## SOLE PRACTITIONERS

## Teach people their business

FED UP with working in a restrictive corporate bureaucracy? Feel like being your own master and setting up a business? Have a few skills you think others would pay for? Well, why not become an independent management consultant?

Such a thought process has led many individuals into setting up on their own and the attractions of doing so are all too easy to imagine. Less so, perhaps, are the risks and drawbacks of such a move.

Whether it is struggling to pay the bills, finding new work or juggling the needs of clients with the demands of running a business, being a sole practitioner is certainly not for the faint-hearted. Yet, whatever the hardships, all the indications seem to suggest that this decade has seen a burgeoning of the number of independent management consultants.

No-one is sure precisely how many sole practitioners there are, but the Institute of Management Consultants suggests there are up to 3,000, representing about a quarter of the total in the management consultancy profession.

Their experience and fields of expertise can vary enormously and there is perhaps no typical profile of an independent consultant. They range from bright bobbies straight out of university who advise companies on their computing needs to retired senior executives who have

service is the same person who carries out the work, which is not always the case with the large consulting practices.

The demand for such general consultancy skills has been fuelled by the expansion of the Government's Enterprise Initiative, which often calls upon experienced businessmen to offer advice to needy companies.

But if Mr Handscomb can be considered to be the general practitioner of the consultancy profession, then Dr Peter Tomkins is very much the specialist.

A 46-year-old direct marketing expert, he set up as a sole practitioner 14 years ago, and has gradually expanded his business. He currently runs a small firm of direct marketing consultants in central London.

With a doctorate in biochemistry and varied work experience as a manager at Mars, a marketer for Encyclopaedia Britannica and a consultant for Arthur Young, Dr Tomkins is now an acknowledged expert in direct marketing techniques.

His company is able to boast an impressive list of about 60 clients, including the Automobile Association, Pedigree Pet Foods, Great Universal Stores, and rather intriguingly, the Conservative Party, for which he provides strategic direct marketing advice.

He spends about £2,000 each year advertising his services in specialist magazines and at conferences, but says he receives most of his work as a result of the reputation he has built up. "It is easy to generate work because I am so well-known as a specialist in the sector."

But he stresses that he can compete with the large consulting groups only as a result of the quality of advice he can offer. "I think to be successful as an independent consultant today you have to have a real expertise and it is not good enough just to be a management consultant who is OK at marketing or something else," he says.

Dr Tomkins warns, however, that when first setting up there is a danger of being too dependent on one client and stresses that for the health of a sole practitioner's future business it is desirable to spread the consulting activities widely. Dr Tomkins succeeded in avoiding this pitfall by easing himself gradually into the profession while continuing to work part-time for an industrial holding group. This enabled him to build up a good network of potential clients while remaining semi-sheltered from the exposure of being fully independent.

Both Dr Tomkins and Mr Handscomb are active in many other related fields and are closely involved with the work of the Institute of Management Consultants.

One of the offshoots of the IMC is the Richmond Group of independent management consultants which acts as a focal point for many sole practitioners, providing a forum for independent consultants to meet and exchange ideas and contacts. For all those who are underpinned by the rigour of the profession and who wish to set up as sole practitioners this would provide a valuable first port of call.

John Thornhill

THERE HAS been a lot of talk this year about consolidation in the international accountancy industry - and a lot of talk.

Deloitte is still debating the terms of a merger with Touche Ross, but after nearly three months of talks Arthur Andersen and Price Waterhouse discovered last month that they did not speak enough of the same language. Only one pair of firms has actually managed to consummate its corporate match.

The new firm - for a few heady weeks earlier this summer the world's largest professional services outfit - is Ernst & Young, formed out of the link-up between Ernst & Whinney and Arthur Young. It began its new life - in the UK at least - amid a blaze of publicity at the beginning of September.

Undoubtedly, the match has created a new, large presence in the consultancy business as well as in the markets for auditing and tax advice.

But whether size is enough for the new firm to compete in an increasingly difficult marketplace is another matter altogether - the new, enlarged firm is hardly likely to be immune from the problems afflicting the other accounting-based consultancies.

The reasons for the two firms coming together in the first place are clear. In the other big accountancy firms, Arthur Young and Ernst succeeded in building up consulting arms from scratch. But - in continental Europe and the

The corporate match that created international accountants Ernst & Young

## Big enough for the beauty contests

UK at least - neither firm was successful enough to make the "big league" and both reportedly suffered difficulties in maintaining rapid growth rates.

At the time of the merger, Arthur Young had 2,385 professional consulting staff worldwide compared with the 2,695 at Ernst.

This put the two firms in the third quartile of the Big Eight. They were dwarfed by Arthur Andersen (with a total of nearly 8,600 consultants,

**Whether size is enough to compete in an increasingly difficult marketplace is another matter**

according to E&Y's figures) - and significantly smaller than KPMG's international operation (with over 4,000 consultants) and both Price Waterhouse (with over 3,000) and Coopers & Lybrand (with more than 3,700).

Only Deloitte (with 1,724) and Touche Ross (1,717) were in the same league, and it is noticeable that these firms have subsequently felt the urge to merge as well.

In aggregate, the figures suggest that Arthur Young and Ernst had similar-sized operations. But there were major regional imbalances: while Ernst could consider itself a major player in North America with 2,340 staff, Arthur Young was relatively small there, with just 1,481 consultants.

In Europe - likely to be the battleground of the future - the roles were reversed. There, Arthur Young had 904 consultants against E&Y's 355, including the UK, where Arthur Young employed 230 professionals against 161 at Ernst. Again, the two firms were eclipsed by all the other big players but for Deloitte and Touche Ross.

Given the breakdown of the Arthur Andersen-Price Waterhouse talks, the combined firm will definitely be large enough now to gain an automatic place at the "beauty contests" when huge contracts are put out to contract.

It will still be smaller than KPMG and dwarfed by Andersen - although it will be only marginally bigger than a merged Deloitte and Touche Ross if that goes ahead.

There are two key problems facing E&Y and the other accounting-based consultancies: how can it differentiate itself from its competitors? How can it retain and motivate key personnel in a way that will draw in new business and provide more opportunities for bright consultants and more fees for the firms as a whole?

Mr Clive Williams, a former deputy managing director of Coopers' consulting practice, was poached to run E&Y's operation in the UK. The short-term aim, he says, is to increase the staff from 468 at the beginning of September to 500 at the end of the year. But he claims to be averse to the idea of size for its own sake.

"We do not want to build up market sector areas into big divisions," Mr Williams says. "We have identified eight business areas where we would like to be strong, ranging from financial services to manufacturing and retail. But there is no point in becoming so big in any one of these that we lose the advantages of our specialisations."

This is all down to personality. Good consultants are individualists. They are motivated by landing big assignments with prestige clients. Pop them into a management position and they find themselves confronting a new way of life altogether. They

find themselves getting involved in recruitment, training and administration, and they may not like it."

By implication, Mr Williams' strategy is to maintain a flavour of boutique in the organisation so that valuable human assets do not walk out of the front door.

The practice will be run on a matrix of four dimensions: five geographical regions, market sectors, "developing skills" such as strategy and human resources, and information

**A flavour of boutique so that valuable human assets do not walk out of the front door**

Technology.

However, Mr Williams wants to discourage the counter-productive internal competition so frequently spawned by such a matrix-structured organisation. He aims to ensure that no one layer of the organisation fights with another for business.

"By limiting the size of the various groupings within the organisation as a whole," Mr Williams contends, "the industry specialists will be driven to

work with the IT experts and the strategists with the industry specialists and IT experts. I am adamant that there will be no internal feuding."

Growth could come via acquisitions, Mr Williams says. In the short term, efforts will be made to consolidate the firm's strengths in IT for the engineering business, financial services and the public sector.

Mr Williams acknowledges that it is early days to assess the success of the strategy, but points to two recent assignments - one for the RAF, the other for a district health authority - as major contracts that would not have been won by either Arthur Young or E&Y alone.

As for the international arena, E&Y's consulting arm is divided into a number of geographical regions, the heads of which meet frequently. "There is an enormous amount of self-interest driving us to take decisions," argues Mr Williams. At a time when the industry is becoming increasingly globalised, it does seem to be a weakness that the firm lacks a formal global structure to match.

David Waller

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## MANAGEMENT CONSULTANCY 6

IT TOOK missionary development efforts by a few undaunted "pioneers" in the late 1960s to convince Japanese executives that Western-style top management consulting had something to offer that would be of value to them. Among those pioneers were Jim Abegglen of Boston Consulting Group and the late Bill Dennick of McKinsey, whose enthusiasm and patience paved the way for an eventual broad-scale entry.

It was in the early 1970s that Japanese banks latched on to consulting (they had the people and the customers, the foreigners would teach them the analytical techniques). As a result, several joint ventures were set up, such as Booz-Allen/Dai-ichi Kangyo Bank, Sumitomo/A T Kearney, First National City Consulting, in a similar vein, Stanford Research Institute helped Nomura Securities to establish the Nomura Research Institute and other "think tanks" followed. Market research firms and specialised small consultants had existed long before, but they also benefited from the expansion.

One major obstacle every consultant faced in Japan was the concern of the Japanese over "face": turning to an outsider for help was considered an admission of weakness. Another barrier was the reluctance of Japanese to pay for service. In Japanese mentality, service is part of any transaction: when shopping, eating out, staying in a hotel, buying hardware or technology, it is not customary to pay for a ser-

vice separately. It was only when the consultants were able to convince Japanese managers that what they were actually selling was "Western management know-how", rather than problem-solving skills or other intangibles - in other words, knowledge which they did not yet have, something quite similar to acquiring technologies or market research data, which they were accustomed to pay for - that a breakthrough was achieved. Japanese managers began to consider paying for consulting services - but then, the outrageous US-type fee levels formed another significant hurdle.

An additional obstacle for management consultants in Japan was the time-honoured belief that wisdom comes with age, made credible by years of experience and grey hair - while most management consultants, especially the MBA variety, tended to be young by Japanese standards (thus Mr Kaifu, the new Japanese Prime Minister is, at 58, considered a "young politician" even though he has been a member of parliament for 29 years).

One senior Japanese executive, who was over 60, once expressed it this way: "To me (I was then about 35) taking advice from you would be like listening to my son, something I would hardly ever do." Eventually, Japanese companies, riding the export wave in the 1970s, saw merit in using consultants for their overseas marketing and investment programmes. But in typical Japa-

Achim A Stoehr on the pioneers of what is now a boom industry

## Japan takes to 'know-how'

nese style, they had a tendency first to try to do everything by themselves, using the consultants only for very special tasks or when they faced a really difficult problem, and then in a very focused and clearly specified manner.

For instance, the international chief of a major zaibatsu company with whom we had worked on several product/market programmes for the Western Hemisphere and Europe called one day and told me he had a problem. He showed me a signed letter of intent with a major south-east Asian government corporation which was not favourable for the Japanese company. So he asked whether we could help him to get his company out of the mess.

When I said this appeared very difficult as neither we nor the company had any leverage with its partner, if indeed it wanted to proceed with the project, and then asked why he had not talked to us before signing the agreement, he answered: "You sound like my doctor, who tells me to smoke less, drink less and exercise more, but when I visit the doctor with a pain somewhere in my body, I expect him to cure that pain, nothing else. So here I have a problem and I ask you

to help me fix that problem, nothing else."

International management consultants found it very difficult and time-consuming to convince large Japanese companies that they also had something to offer on management issues in Japan; another presumptuous proposition by these *gaijin*. Technique-oriented approaches, such as productivity improvement programmes, statistical quality

"When I visit my doctor with a pain, I expect him to cure it, nothing else"

control (the Deming and Juran successes), flexible manufacturing concepts, effectiveness reviews of computer systems were more easily acceptable to the Japanese than organisation, planning and control, strategy or human resources management.

With one major Japanese manufacturer it took us 18 months from presenting our introduction letter to its president until the start of a thoroughly structured, small pilot project in one of its best man-

aged plants, with expected results clearly specified from the beginning. During this period of getting acquainted we had at least one meeting a week with staff to explain what we could do for the company and to define exactly how we would do it.

Due to the Japanese eagerness to learn, the concept of joint client-consultant project teams emerged: in one large turnaround study I directed a team consisting of more than 50 full-time client staff and five consultants. Every single analysis performed was recorded in detail, so that for the next such effort the client would no longer need outside help.

It was considerably easier to work for foreign clients who needed help to understand and appreciate the difficulties of entering the Japanese market, and for those who had already taken that bold step, normally in the form of a joint venture, provide explanations why these marriages of convenience did not work out quite as well as had been hoped.

Another profitable endeavour for international consultants was to reveal to the rest of the world the intricacies and mysteries of "Japan Inc.", a term coined there in the early 1970s. For many consultants

this was much more rewarding than the tedious business and client development efforts with Japanese companies, which required high levels of frustration tolerance.

Today, consulting in general and top management consulting in particular have gained broad acceptance in Japan's corporate world. Fees and especially the high cost of doing business in Japan are no longer a serious deterrent. Consultants and international consulting firms of all forms, sizes and specialisations abound, including:

□ the renowned international management consulting chains - McKinsey, BCG, Booz Allen, ADL, Bain, SRI - all well-established and many of them fully "Japanised".

□ grey-haired Japanese elder statesmen and ex-bureaucrats, plus some old Japan hands who have gone native there, utilising their influence and connections.

□ the large Japanese "think tanks" often combinations of academics, retired businessmen and government officials, plus young brainpower, producing mountains of reports.

□ dozens of market research firms analysing any and all consumer and industrial product markets, frequently

employing legions of Japanese housewives for field interviews.

□ personnel consultants and headhunters, from Boyden to Zehnder, who have also long struggled to convince Japanese managers that switching jobs and companies does not necessarily give them a stigma.

□ specialists for every function imaginable. The "pathfinders" who help Japanese and foreign companies enter new and unfamiliar terrain; tutors for Japanese and foreign languages as well as for speeches, entrance examinations, song and dance acts for after-hours entertainment; service firms relaying telephone calls to distant offices abroad and consultants serving as business representatives overseas for small and medium-sized Japanese companies.

In Mr Kenichi Ohmae, whom International Management in 1984 labelled "the impresario of Japanese management consulting," Japan, with a little help from MIT and McKinsey, has

succeeded in developing an unusually articulate global thinker who has made a significant contribution to Japan's industrialisation. More recently, though, he has decided to focus his attention on south-east Asia and on enunciating provocative thoughts on non-business subjects.

The Japanese consulting business has become another boom industry. In typical Japanese fashion, after success at home, the next stage will be the attack on foreign markets.

JMA Europe, a subsidiary of the Japan Management Association, was established as a listening post in 1981. It now sells Japanese engineering, manufacturing and product development techniques to European companies. Except for one permanently assigned Japanese, all its staff members are European consultants trained in Japan. Once again, a cycle is being completed.

The writer is a director of Arthur D Little.

## THE US

## Turmoil amid the success

WITH AMERICAN management consulting incomes running an estimated 20 per cent ahead of last year, the field seems plagued only by its own success. The two areas of greatest growth, according to Mr David Lord, the managing editor of Consultants News, the field's monthly trade publication, are information systems and compensation and benefits.

Two of the major firms in these hot areas, Arthur Andersen and Hay Group, are in the midst of the turmoil that has arisen over consultants' success in relation to their companies' overall activities.

Andersen, recently, abandoned discussions with Price Waterhouse over a merger of

cent in 1988 to revenues of \$376m worldwide and \$277m in the US. After Hay's \$210m in sales, its largest components at the time of the announced divestiture were Peterson Associates with sales of \$50m, Gartner Group (a computer consultancy) \$40m, Cleveland Consultants \$16m and Litigation Sciences \$12m.

It was the parent company's bottom line that forced the sale at a time when the core advertising business suffered a steep reversal in fortunes. Having paid about \$85m for the stable of consultants, Saatchi may realise only a small profit, if any, from the divestiture.

The delay has already led to the conclusion that the consulting business will not be sold as a unit, disappointing Saatchi's original hopes. Though profitable and growing, the units would not naturally attract other consultancies, which as private companies are unlikely to have the capital for a buyout on the scale of a public company.

Suggestions have ranged widely: even General Motors and IBM have been mentioned as possible bidders. In the end, Hay and Gartner may attempt a management buyout, if that is not threatened by weakness in the junk bond market.

The difficulties that Andersen and Saatchi face in bolstering the corporate bottom line and compensating their own consultants have diverted attention from the field as a whole. Consultants News reckoned that management consulting grew to revenues of \$12.5bn in 1988, with overseas billings jumping 27 per cent to \$3.2bn compared with domestic revenue growth of 13 per cent to \$9bn. The smallest 1,262 firms billed \$24m in 1988. The market, the survey notes, has doubled in only three years.

At the same time, clients are making greater demands that portend greater risks for con-

## The defection inspired legal suits from both sides

the two firms. However, Andersen has already had problems in dealing with some of its own successful consultants.

The defection of the firm's consulting head, Mr Gresham Brebach, last year to start his own Information Consulting Group inspired legal suits from both sides. The higher profitability and growth rate of Andersen's consultants caused a conflict with the auditors who control the firm.

Billing more than \$1.1bn worldwide and \$683m domestically, Andersen's consulting group grew 43 per cent worldwide and 22 per cent domestically in 1988, as reported in Consultants News. The contribution of its consulting revenues to the firm's total business is even more dramatic, according to the newsletter, which claims that 30 per cent of accounting side revenues are actually consulting, totalling \$500m. Adding this to \$1.2bn at AC (Andersen Consulting) would give a total of \$1.63bn in consulting as opposed to \$1.2bn in audit-tax.

By far the largest consulting company, Andersen racked up nearly double the revenues of the next largest consultants, Marsh & McLennan, and represented more than 10 per cent of the \$9.3bn in revenues garnered by the 40 largest consultancies in 1988.

However, the proposed merger with Price Waterhouse aroused the suspicion that it was a way to bolster the auditors against the consultants because of Price Waterhouse's strength in auditing and relative weakness in consulting. And since the heads of both firms were auditors, the compatibility of the consultants may have been a remaining sticking-point in negotiations.

The merger talks were plagued by such problems as incompatibilities in the firms' pension schemes for retired partners. The fact that Price Waterhouse audits IBM and Hewlett-Packard, computer giants with which Andersen's consultants have joint ventures, was also a problem. US accounting rules prohibit a firm from doing both.

Saatchi & Saatchi's plans, announced in June, to divest itself of its consulting business has fed the rumour mill for months. The advertising group said that it could no longer invest in the acquisition of new consulting firms.

Nevertheless, Saatchi's consulting business grew 40 per

## A management buyout may be threatened by junk bond weakness

sultants. Guarantees are becoming more of an expected part of a consulting package, in which the recommendation of computer hardware, for instance, would entail a guarantee of its implementation by the consultant. Such developments require more capital, which is forcing firms to consider raising money through stock offerings.

The consultants have to give in to such pressure with the competition surfacing in the computer field at least, among vendors' own consultancies, IBM, Digital Equipment Corporation and Unisys have their own consulting practices.

Clients may wonder at their objectivity, but consensus among consultants lead to the same conclusion about their own objectivity.

Even if the US slips into recession in 1990, as many now predict, consultants should hold their own, if not benefit from clients' new problems. Increasing work in areas that foster innovation, quality and productivity may be recession-proof, while overseas accounts may compensate for any domestic slowdown. Asia is looked to as a market with as-yet-unexploited potential.

Frank Lipsius

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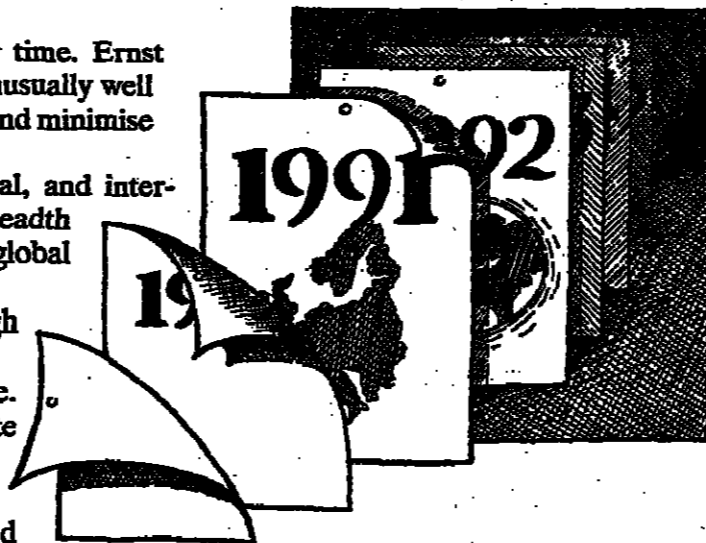
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## INSIDE

### Frost report: A long time in the making

**Hays** What bothers Ronnie Frost, chairman of Hays, the UK business services group which is poised to join the stock market in one of the biggest flotations in recent years, are press reports focusing on its £254m management buy-out from the Kuwait Investment Office two years ago. This underestimates the years of careful preparation that have led up to this month's flotation, he argues. "Some management buy-outs are prepared in four weeks. I had four years, and believe the group is now in just about perfect shape," he says. The crucial question, however, is whether the market will adopt the same view, explains Clare Pearson, Page 29

### Whose side are you on?

It was an intriguing position that senior management at Calsonic de depot et placement du Québec found themselves in. Together with Michel Gaucher's Socanav, their group eventually won control of Steinberg, the Montreal-based supermarket chain. But during the fierce C\$1.35bn bidding war, one of Calsonic's top team, in charge of the C\$32bn pension and insurance fund's minority shareholding in Steinberg, was responsible for haggling to procure the best price for his stock, while another, working in concert with Mr Gaucher, was striving to acquire those same shares as cheaply as possible. David Owen and Robert Gibbons report, Page 22

### Drive away from drink



There is no way Vijay Malviya is going to put all his company's money "in a whisky bottle." He says liquor is a very profitable business for his Bangalore-based United Breweries group. It accounts for 42 per cent of turnover, despite the group's interests in pharmaceuticals, processed foods, paints and telecommunications. But he is keen to reduce this to 30 per cent through a strong push into core sectors of the Indian economy and areas of high technology, writes Gita Piramal, Page 24

### It never rains but it...

As a violent downpour soaked the streets of the Ivory Coast's administrative capital, Yamoussoukro, yesterday, a handful of carefully-selected cocoa farmers gathered for a long-awaited and twice-cancelled meeting to discuss a fall in the price of the cocoa crop. Page 38

### Italy looks upwards

This week, in its 1990 budget, the Italian Government mounted what it called "the most serious attempt of the decade to reform Italy's shaky public finances." Meanwhile, the Istituto Bancario San Paolo di Torino, the second largest bank in Italy, has just published a study which says that any faults are discounted in the relatively low level of share prices, and positive developments should accelerate the recent recovery in foreign equity investment. Page 46

### Market Statistics

Base lending rates	44	London share service	42-43
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U.S. \$100,000,000

**BIL****Brierley Investments Overseas N.V.**  
(Incorporated with limited liability in the Netherlands Antilles)**Floating Rate Notes Due 1992**

all unconditionally and irrevocably guaranteed by

**Brierley Investments Limited**

(Incorporated with limited liability in New Zealand)

In accordance with the terms and conditions of the Notes, notice is hereby given, that for the interest period from October 6, 1989 to January 8, 1990 the Notes will carry an interest rate of 9.325% per annum. The amount payable on January 8, 1990 will be U.S. \$243.49 per U.S. \$10,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank



October 6, 1989

**BankAmerica Corporation**

(Incorporated in the State of Delaware)

**U.S. \$400,000,000**  
**Floating Rate Subordinated**  
**Capital Notes Due 1997**

Holders of Notes of this issue are hereby notified that for the next interest sub-period from 10th October, 1989 to 10th November, 1989 the following will apply:

1. Interest Payment Date: 7th December, 1989.
2. Rate of Interest for Sub-period: 9.316% per annum.
3. Interest Amount payable for Sub-period: US\$365.57 per US\$50,000 nominal.
4. Accumulated Interest Amount payable: US\$810.53 per US\$50,000 nominal.
5. Next Interest Sub-period will be from 10th November, 1989 to 7th December, 1989.

Agent Bank:  
Bank of America  
International Limited

**Brasilvest S.A.**

Net asset value as of  
2nd October, 1989  
per NCZ Share: 8,370.45  
per Depositary Share:  
US\$21,563.60  
(Second Series)  
US\$20,249.55  
per Depositary Share:  
(Third Series)  
US\$17,232.61  
per Depositary Share:  
(Fourth Series)  
US\$16,093.92

**REPUBLIC OF COLOMBIA**  
US\$500,000,000  
FLOATING RATE SERIAL NOTES DUE 1994  
New Rate of Interest 10.1875% p.a.  
Interest Payment Date April 6, 1990.  
Interest Payable:  
US\$515.00 per US\$10,000 Note and  
US\$5,151.74 per US\$500,000 Note.  
By Citibank, N.A., CIB Dept  
October 6, 1989 London, Agent Bank

£200,000,000

**ABBEY NATIONAL BUILDING SOCIETY**

(Incorporated in England under the Building Societies Act 1874)

**Floating Rate Notes 1993**

In accordance with the provisions of the Notes, notice is hereby given, that for the three month interest period from October 5, 1989 to January 5, 1990 the Notes will carry an interest rate of 14.7875% per annum. The interest payable on the relevant interest payment date, January 5, 1990 will be £372.73 per £10,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank



October 6, 1989

**INTERNATIONAL COMPANIES AND FINANCE****Mechanics and ground staff announce opposition to UAL buy-out**

By Anatole Kaletsky in New York

THE UNION representing mechanics and ground staff at United Airlines has said formally that it opposes the \$6.8bn leveraged buy-out plan proposed by the company's management in conjunction with its pilots' union and British Airways.

The union announcement, while not unexpected, could represent a further setback for the buy-out partners, at a time when the extraordinary leverage involved in the deal, as well as British Airways' \$750m

involvement, is being intensely scrutinised by the US Transportation Department and Congress.

The ground staff, represented by the International Association of Machinists (IAM) is the largest single employee group at United Airlines, far outnumbering the pilots. It is also a group with a long history of industrial disputes, not only with the airline's management but also occasionally with the pilots.

Mr John Peterpaul, vice president

of the IAM said that his members would not participate in the Employee Stock Ownership Plan (Esop) which is to become the main equity shareholder in United's parent company, UAL. The UAL buy-out, "at least as it is presently structured," would put the airline too deeply into debt to meet his union's approval, Mr Peterpaul said in a hearing before the House Aviation Subcommittee. The whole deal was based on a "radical" business plan, he added.

In a meeting with reporters after his testimony, Mr Peterpaul softened his position slightly. When asked if the IAM would never join a United Airlines Esop he said that "there is no such thing as never." But he repeated that the plan as structured was unacceptable to the IAM.

The IAM's attitude to the buy-out could prove important because United's financing is critically dependent on the large pay concessions offered by the pilots' union in

exchange for their equity stake in the airline. The IAM's stance almost certainly implies that the mechanics will refuse to make any comparable concessions. According to some analysts, past experience of Esops, which cover some unions but exclude others, suggests the possibility of friction in future if the IAM succeeds in winning pay increases for its ground staff, while pilots' incomes continue to be restrained by their ownership role.

**AMI bidder fails to finance cash tender offer**

By Janet Bush in New York

IMA ACQUISITION, which is offering \$3.35bn for American Medical International, informed the troubled Beverly Hills hospital chain yesterday that it cannot finance its cash tender offer for AMI shares and has presented an amended offer at a lower price.

IMA, a group comprising Wall Street investment bank First Boston and Harry Gray Melvyn Klein & Partners, a leveraged buy-out firm in which the Pritzker family is a leading investor, has suffered numerous setbacks since announcing its offer in July.

Yesterday, there was speculation that the offer may have to be withdrawn and that American Medical may look for other suitors.

First Boston, which has agreed to commit \$100m of its own funds as well as arrange \$713m in subordinated debt, has recently suffered a number of setbacks.

In August, it withdrew a bond offering for Ohio Mattress because of lack of interest among investors, concerned about depressed conditions in the junk bond market, and is widely believed to hold a large stake in Campeau bonds which are trading at a steep discount in view of the retailer's well publicised problems in paying off its debt.

IMA's cash tender offer for up to 68,814,805 common shares at \$28 a share has already been extended four times and is cur-

rently due to expire on October 11.

IMA said yesterday that it would not be able to purchase shares when the tender offer expires and could not give assurances that any revised agreement would be reached or that it would amend or extend the existing tender offer.

First Boston declined all comment outside its written announcement yesterday.

The existing tender offer is conditional on IMA being able to get sufficient financing to purchase all the shares in the offer, to refinance certain AMI debts and pay fees and costs.

It is also conditional on not less than two thirds of AMI's outstanding shares being tendered on a fully diluted basis before the offer expires.

Since its offer in July, IMA has been hindered by uncertainty surrounding pending legislation in Congress which would eliminate tax benefits for certain securities.

IMA had hoped that the House Ways and Means Committee would grant it an exemption but this was not forthcoming when the Committee approved the tax bill last month.

IMA said yesterday that financing for its amended offer was not dependent on receiving such an exemption if the tax bill becomes law.

Nevertheless, AMI's share price has dropped sharply since the offer was first agreed to in July, making the terms look over-generous.

**Quebec fund ruffles many feathers**

David Owen and Robert Gibbens on Caisse de Dépôt du Quebec

THE recent C\$1.35bn (US\$1.13bn) bidding war for Steinberg, which eventually saw the Montreal-based supermarket chain fall into the hands of Mr Michel Gaucher's Socanav and the Caisse de Dépôt et Placement du Quebec, put some of the Caisse's senior management into an intriguing position.

One of them, in charge of the C\$35bn pension and insurance fund's minority shareholding in Steinberg, was responsible for handling the procurement of the best price for his stock. Another, working in concert with Mr Gaucher, was striving to acquire those same shares as cheaply as possible.

Still another was negotiating with the Gaucher consortium to pick up Steinberg's valuable property division on advantageous terms. Caisse executives may grow accustomed to such mutually adversarial roles in key transactions if the institution's steady growth rate of recent years continues.

Founded in 1965, the Montreal-based Caisse is now Canada's largest institutional investor, with some C\$3bn of fresh funds to allocate annually. Its portfolio includes C\$16m of bonds and C\$10.4bn of shares and convertible securities. The Steinberg deal will take its holdings in mortgages and property to close to C\$4m.

This scale - and the fund's near-comprehensive list of blue-chip minority shareholdings - is sufficient to have given the Caisse a voice in several recent corporate restructurings and manoeuvres.

When Iaco, the world's largest nickel producer, last year proposed paying a C\$1.05bn dividend as part of a plan that would entrench management

control, for example, the Caisse opposed the move as an invasion of shareholder rights.

The organisation could also play a role in the takeover battle for Connaught BioSciences, through its 20 per cent holding in the Toronto-based vaccines and pharmaceuticals group.

The inexorably waxing influence of the Caisse has led to it being regarded with suspicion in many a corporate boardroom. So has the ambivalence of its official mandate. This is to "generate a profit through sound investments and also to support Quebec's economic development." As a result, it has tended widely to be viewed as a relatively docile tool of successive Quebec Governments.

It was certainly a key instrument during the separatist unrest of the late 1980s and early 1990s, when international pressure depressed the market for bonds issued by the Quebec Government and its Hydro Quebec electricity utility, making new issues difficult to place on Bay Street and Wall Street. And when the separatist Parti Québécois (PQ) came to power in 1976, the Caisse was seen by Mr René Lévesque, the Premier, and Mr Jacques Parizeau, his gifted Finance Minister, as the base of a central bank for an independent nation.

It was only with the accession of Mr Jean Campeau, a lanky, taciturn Parizeau associate, to the chairmanship in 1980, that the Caisse began to ruffle establishment feathers in earnest, however.

In 1982 it built up an interest of close to 10 per cent in Canadian Pacific, the archetypal Canadian conglomerate, and demanded two seats on the

board, only to back off when the Government of Mr Pierre Trudeau introduced legislation to limit the holdings of provincial government agencies in national transport companies.

Later, it was barred from trading on the Toronto Stock Exchange for failing to file insider reports during its purchase of 15 per cent of Dumar, the forest products company.

But since Mr Robert Bourassa's Liberals returned to power in December 1985, this aggressive streak has been kept under wraps, in keeping with the modus operandi of the avowedly federalist government.

Even so - and despite the consistently above average rates of return that the fund achieves - calls to break the Caisse up on grounds of its size and potential conflicts of interest have proliferated. Often cited in this regard is the fact that several board members represent major borrowers.

The Caisse's size and its quest for better returns have also contrived to compel it lately to adopt a higher profile on the international stage.

"Last year, the board decided to double the international stock portfolio from C\$1.4m," says Mr Michel Nadeau, the institution's senior vice president, planning. "We should be at C\$3bn by 1991."

The fund has for some years been a player of significant stature in the US Treasury bond market.

"Last year, we traded more than \$200m worth," Mr Nadeau says. Earlier this year, it expanded its scope into gilts and other European and Japanese government bonds. "We think that international mar-

kets are not necessarily efficient all of the time," Mr Nadeau explains. "Canada and the US are closely related; if we want to look for fresh opportunities, we need to go elsewhere."

The Caisse does not currently intend to push for seats on the board of international companies as it sometimes does in Canada, however. Indeed, it will shortly raise the proportion of its international portfolio earmarked for index funds to 70 per cent from 50 per cent at present.

According to Mr Nadeau, this is due to the poor performance of the worldwide managers that the Caisse has hitherto employed to handle 35 per cent of its funds invested in international stocks. Over the last four years, the rates of return achieved by 90 per cent of these managers has failed to match the Morgan Stanley world index.

The size of the Caisse now means that, in Mr Nadeau's words, "we have to be creative in terms of managing money." This gives it a keen interest in such innovative instruments as the Canadian bond futures contract recently launched by the Montreal Stock Exchange. "We will be very active in that contract, since it will give us the flexibility that we have in the T-bond market," Mr Nadeau predicts.

The Caisse is also very active in the secondary market for Quebec government securities. "From the buyer's viewpoint, the market isn't as liquid as that for Canadian bonds, but they can get a premium of 70 basis points and for small lots, the liquidity is the same."

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## INTERNATIONAL COMPANIES AND FINANCE

## LVMH rises 60% despite boardroom power struggle

By George Graham in Paris

MOET-Hennessy-Louis Vuitton (LVMH), the leading French champagne, cognac and luxury goods group, yesterday reported a 60 per cent rise in first half profits, dispelling fears that the struggle for power at the group's head might damage its performance.

Net profits in the first six months totalled FF1.02bn (\$160m), as sales advanced by 25 per cent. Group operating profits gained 46 per cent to FF2.36bn.

The battle between Mr Bernard Arnault, who took over as chairman in January, and Mr Henry Racamier, head of the Vuitton side of the group, has dragged on for months now, and took a turn in the law courts earlier this week. Desultory attempts at negotiations

have so far failed to reach a settlement.

The luggage and accessories division, comprising mainly the Louis Vuitton operation, provided the largest contribution to operating profits with earnings of FF971m, up 49 per cent, on sales 45 per cent higher.

The division is expected to advance more slowly in the second half, partly because of lower sales in Hong Kong in the wake of the political upheavals in China, and partly because of problems over bringing Louis Vuitton's new dispatching centre at Cergy, near Paris, into operation.

Cognac and spirits, led by the Hennessy brand, produced operating profits of FF900m, up 50 per cent, on sales 28 per

cent higher. Sales advanced especially in the Far East, with aged quantities, which produce a higher profit margin, accounting for a greater proportion of deliveries.

Champagne and wines, including the Moët et Chandon, Mercier and Veuve Clicquot brands, advanced 34 per cent to operating profits of FF305m, on sales up 7 per cent. The Champagne region in general is currently expected one of the best crops for many years, though Moët's own vineyards were damaged more than most by frosts.

Profits from the perfumes division rose 28 per cent to FF258m, thanks especially to the strong improvement in the earnings of the RoC beauty products subsidiary.

## Christiana forecasts NKr1.2bn loans loss

By Karen Fossell in Oslo

CHRISTIANA BANK, one of Norway's top three banks, has adjusted upwards its earlier forecast for losses on loans and guarantees for 1989 by NKr120m (\$17.2m) to NKr1.2bn.

The move reflects problems in the economy of Norway's remote northern region, where fishing and fish-farming is a primary source of income.

Christiana's eight month net profit after taxes and loan losses soared to NKr438m from NKr71m in the same period last year.

Pre-tax profits before loan losses climbed to NKr1.58bn from NKr679m a year earlier. The bank said its performance in the second four months of this year was weaker than that of the first four months.

However, gains of NKr666m from the sale of shares and bonds were realised in the eight-month period, while unrealised gains of NKr438m for the bank's portfolio of the same were made.

Mr Nørsk Hydro said it will buy Den norske Creditbank's stake in Saga Petroleum, the Norwegian independent oil company for NKr140 a share. Nørsk Hydro said it was buying some 2.7m shares, which will boost the group's stake in Saga to about 11 per cent, adding that the investment was a long-term one.

Hydro said the deal was conditional on DuC's earlier provisional agreement to sell its Saga stake to Total Compagnie Française not going through. DuC's 2.7m shares in Saga represent around 9 per cent of total Saga stock.

## Keeley increases sales to R87.4m

GROWING world demand for granite lifted sales and profits in the six months to August for Keeley Group, the South African quarry operator and the country's largest exporter of granite, writes Jim Jones in Johannesburg.

Keeley lifted interim sales to R87.4m (\$32.5m) from R69.4m and pre-tax profit was R23.7m against R16.1m.

## Sparks fly over Spanish utilities

Peter Bruce and Tom Burns on moves to repel foreign interest

The British Government did a lot of people a favour when it forced the Kuwait Investment Office (KIO), to cut its holding in RP.

One of the most commonplace consequences has been to make it easier for continental Europeans to justify keeping foreign marauders at bay when their own key companies or industries were threatened.

"I thought the British decision [on RP and KIO] was a good one," says Mr Claudio Aranzadi, Spain's Minister of Industry and Energy. However, he strongly denies what he has in mind for the Spanish utility industry has anything to do with protectionism.

Just over a month ago it was announced that Rheinisch-Westfälisches Elektrizitätswerk (RWE), the big West German utility, was negotiating to buy about 5 per cent of Spain's fourth largest power supplier, Union Fenosa.

This sort of thing is routine in Spain, where foreign investors have been encouraged to regard almost everything as for sale.

But Mr Aranzadi, in an interview, made it clear he would not permit foreign utilities to buy Spanish ones. "The electricity sector is not a complicated one from a technical point of view," he said. "Participation by a foreign electrical company in a Spanish one does not add any positive aspects to the sector."

Legally, he conceded, he could not stop the RWE deal, which is where Britain helps. "In Great Britain the law permits a foreigner to buy 80 per cent of RP but, *de facto*, they cannot," he says approvingly.

Madrid is determined to make its position on Spain's utilities as clear as possible to its neighbours. Two thirds of the country's power is supplied



Claudio Aranzadi: "British decision was a good one"

plant is required) and new tariffs, the Spanish are working in the dark.

The community has to grapple with how to charge for cross border supply, how to compensate for hidden subsidies, and how to regulate the sale of electricity from one country to another across a third country. None of this has been done.

The lack of any real foresight into what the Community-wide future might look like has made the Spanish defensive. For the moment, said Mr Aranzadi, nothing should be allowed to interfere with or threaten the integrity of the national system.

Clearly, the entry of powerful foreign utilities not necessarily sensitive to the political pressures that a Spanish Government might want to place upon a local utility, threatens that integrity.

Another big worry for the Spaniards is the urgent need to preserve a role in the industry for Endesa, the state-owned generator, should the EC market ever be truly liberalised. Endesa generates power but, under the current Energy Plan, sells it all to the private utilities, who have to buy it.

Last year the Government floated 20 per cent of Endesa, a large portion of it in New York. As with the privatisations of Telefonica and Repsol, investors bought these shares because the Spanish Government is able virtually to guarantee the prosperity of the companies. In Endesa's case, the arguments for continuing to do so are particularly thin, however.

Utilities pay Endesa Ptas4.7 (3 US cents) per KWh whether they take its electricity or not, and sell it at Ptas12 per KWh. These prices, though a yard-

stick for the industry, could simply be imposed on it by decree. Critics say Endesa's most important contribution to the economy is that its coal-fired stations keep threatened Asturian coal mines open.

Nevertheless, Endesa is allowed by the Government to range freely through the sector as an investor. It owns big blocks of Union Fenosa and Fesca, the Catalan utility. Last month, it shocked the industry by buying 10 per cent of Sevillana, one of the big four private utilities. Sevillana attacked the move but Mr Aranzadi sees no reason why Endesa should not be allowed to continue buying into the private companies.

"Endesa operates with complete transparency," he says, and the company is well run. "Foreign investors don't buy donkeys."

Endesa is the whip the Government will use to keep the private utilities in line during the uncertain times that lie ahead for the industry.

"There is no process of reorganisation going on," the Minister insists, though a "perfectly admissible" process of "concentration" may have begun. The Ministry would study whether to allow any concentrations that occur. RWE and Union Fenosa is obviously not going to be one of them.

"Endesa has to play by the same rules as the private utilities," he says, adding, more ominously for the rest of the industry, that "the decisions Endesa makes can never run counter to what the Ministry feels is best for the electrical system."

For Endesa and anyone else concerned, that is the only rule that counts from now on.

## Oce up 12.8% in third quarter

OCE-VAN DER GRINTEN, the Dutch copier and office systems group, said its net third quarter profit jumped 12.8 per cent to F119.4m (\$3.19m) from F117.2m a year earlier, AP-DN reports.

Fueled by surprisingly resilient economic growth and business investment in key markets, the company added net earnings per share rose to F1.62 from F1.58.

Encouraged by buoyant "better-than-expected" earnings so far, the company expects net

profit for 1989 to rise 10 per cent from a year earlier to about \$3.7m.

The company announced a 1.3 per cent annual earnings gain in 1988.

Up to now, the cautious Oce has not been willing publicly to project an earnings growth figure for the year.

Oce said the forecast was an improvement from earlier expectations. Analysts have been expecting an 8 per cent rise in 1989 profits to about F183m.

Oce said it also planned to split its shares five for one next year. The split will be proposed to the company's annual meeting next April.

Oce stock was buoyed by the earnings and stock-split news, and the share price rose to F132 by early afternoon, from F123 the day before. On the basis of the current price, Oce's post-split shares would be valued at around F165.40. The company's stock is one of the higher priced issues on the Amsterdam bourse.

## Software side depresses Altron

By Jim Jones in Johannesburg

ALLIED Electronics (Altron), the formerly high-flying South African electronics and electrical group, has been stalled by problems in its computer and software distribution businesses, deferrals of capital spending by the post office, and substantially higher interest payments.

Altron increased its interim turnover to R1.38m (\$496m) in the six months to August from R1.05m. However, pre-tax profit grew only to R114.9m from R107.5m.

The group's worst affected subsidiaries were Fintech, an

office systems company, and Punch Line, its microcomputer subsidiary. Punch Line was acquired by Fintech two years ago. Its new owners were obliged to write off large amounts of outmoded stock and outdated software.

Mr Bill Venter, Altron's chairman, says Punch Line's identifiable losses have been stemmed, but much work is needed before profits reach an acceptable standard.

Altron, the electronics business, has been affected by sharply lower post office spending, but has managed to

counter this by increasing sales of electronic equipment to the mining and automotive industries.

During the past six months Altron bought 65 per cent of Telesat, a communications company, from Telettra of Italy. The divestment by Telettra was accompanied by a technology transfer agreement which is expected to increase the flow of technology from abroad.

Altron's interim earnings rose to 175 cents a share from 174.5 cents. The company does not declare an interim dividend.

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Year	Small Cap	Nikkei 225	Topix
1982	18.7	4.4	4.1
1983	27.7	23.4	23.3
1984	33.2	16.7	24.8
1985	53.9	13.6	14.9
1986	30.9	42.6	48.3
1987	68.5	15.3	10.9
1988	97.5	39.9	36.6
1989*	42.4	14.2	10.4

\* Figures to 31st August.

Source: WICAM (Wako International Capital Management)

Note: Transaction costs and dividend earnings are not included in the tests. Since share prices can fall as well as rise, past performance should not be taken as an indication of future prospects. The funds named above are not collective investment schemes as defined in the Financial Services Act.

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September 1989

## INTERNATIONAL COMPANIES AND FINANCE

## Boone drops call for special Koito meeting

By Ian Rodger in Tokyo

MR T. BOONE Pickens, the Texan corporate raider, has abandoned for the time being his plan to call for a special shareholders meeting of Koito Manufacturing, a Japanese motor components company in which he bought a 20.2 per cent stake for more than \$1bn last March.

Boone Co, an investment company run by Mr Pickens, is now the largest shareholder in Koito and has been seeking shareholders' approval to nominate directors to the company and raise its dividend but was rebuffed at the annual general meeting in June.

Toyota Motor, which has a 19 per cent stake in Koito, has

three directors on the board and a strong influence on the company.

Mr Pickens has been claiming that the opposition to his participation in the direction of the company demonstrates that Japan's corporate system is rigged and closed to outsiders. Yesterday he invoked the purchases last week by Sony, the Japanese electronics group, of Columbia Pictures and Guber-Peters Entertainment for \$3.6bn in his cause. These purchases have sparked off a fresh wave of anxiety in the US media about Japanese takeovers of US assets.

Mr Pickens said it was ironic that actions were being taken

to block a US investor from participating in the management of a Japanese company "at the same time that Sony is buying two US companies for \$3.6bn."

He said he had sent a letter to 88 leading Koito shareholders on September 22 seeking their comments and support for his proposal to call a special shareholders meeting to increase the company's dividend but had received no replies. He believed that this symbolised the cartelised nature of Japanese business, and decided to withdraw his plan.

"Koito chairman Takao Matsumura and Toyota are already

conspiring to orchestrate the meeting to a predetermined conclusion," he said. "We will not take part in a sham shareholders meeting."

He added that Boone Co would send a second letter to the main shareholders urging their comments and support and would determine what further actions to pursue after receiving their responses. Under Japanese law, a substantial shareholder can call a meeting once it has been on the register for six months.

Koito denied yesterday that it was in collusion with Toyota and said it would have co-operated with Mr Pickens if he had sought to call an extraordinary

meeting of shareholders. The company also reiterated its call to Mr Pickens to make clear his relationship with Mr Kitano Watanabe, a Japanese corporate raider who twice last year tried to force Koito to arrange a purchase of his shares in the company at a premium.

Mr Pickens acknowledges buying his stake in Koito from Azabu Motors, controlled by Mr Watanabe, and last month announced plans to raise his stake to 26 per cent by buying more shares. His refusal to clarify his relationship with Mr Watanabe has fuelled speculation that his purchases of Koito shares are covered by a repurchase agreement.

## Pioneer's shares soar on laser disc news

By Stefan Wagstyl in Tokyo

SHARES IN Pioneer Electronic, the Japanese electronics company, soared yesterday on news that the company had developed what it described as the world's first rewritable laser disc system, capable of being used to record and re-record 30 minutes of sound and pictures.

The system has been developed jointly by Pioneer and KDD, the Japanese international telephone company. It consists of a recording/playing machine and a special 30cm (12 inch) optical disc. It is similar in principle to the conventional read-only laser disc systems, used for high-quality audio-visual shows.

Conventional discs are sold only in pre-recorded form. Two systems which allow users to make their own recordings do exist — but, according to Pioneer, one will make recordings only five minutes long at the most and the other permits discs to be used for recording once only.

The five minute system is made by a specialist Japanese company called Amica, and the once-only machine is a prototype made by Matsushita Electric, the largest Japanese electronics group.

Pioneer said its new system would be put into production within two years. The first models will be for professional customers since the special discs are made of glass and are fragile. The company is trying to develop a plastic version suitable for use in the home.

Pioneer, a medium-sized consumer electronics group, has stolen a march on bigger companies in developing laser disc technology at a cost so far of some ¥50m (357m).

The first player was launched in Japan in 1981. Sales grew slowly at first because of a lack of pre-recorded material but have picked up greatly in the last year.

Pioneer has expanded production by 50 per cent this year to 70,000 players and 2.4m discs a month. Other disc producers include Sony, Hitachi, Kuraray and Mitsubishi Plastics in Japan and Philips, the Dutch combine.

KDD developed its own playing and recording technology separately until last year when the two companies joined forces in the development. Pioneer's shares yesterday closed ¥270 higher at ¥6,030.

## Leap out of the whiskey bottle

"Liquor is a very profitable business, but I don't want to put all our money into a whiskey bottle," says Mr Vijay Malviya, chairman of the Bangalore-based United Breweries (UB) group, India's 12th largest business house.

In spite of its interests in pharmaceuticals, processed foods, paints and telecommunications, currently slightly over 42 per cent of the group's Rs10.1bn (\$940m) turnover comes from the sale of alcohol. Mr Malviya would like to see this reduced to 30 per cent through a strong push into core sectors of the economy and areas of high technology.

Direct liquor advertising is not allowed in India, although companies like UB generally manage to get around such restrictions through creative layouts which suggest the spirit if not the drink.

But recent political events, particularly in the states of Tamil Nadu and Karnataka, have had an adverse effect on UB's sales.

"Tamil Nadu is traditionally one of our biggest markets. The newly elected DMK government's taxation policy has dealt a blow to the liquor industry. We have lost sales of 300,000 cases representing nearly 5 per cent of our all-India annual sales as a result," says Mr Malviya.

To maintain growth, UB has signed a clutch of collaborations and joint ventures over the last couple of years with companies as diverse as Sweden's Pharmacia, Belgium's Abba, Van der Horst of the Netherlands and Gencom of the US. In most cases, there will be a phased programme to manufacture these companies' products including computer peripherals, medical and telecommunications equipment in India.

Meanwhile, an engineering division has been created through the acquisition of Western India Enterprises and Best and Crompton Engineering in the teeth of fierce competition from other suitors.

But petrochemicals form the cornerstone of the new edifice which Mr Malviya wants to build. Over the next few years, the UB group will be investing more than Rs22.5bn in eight petrochemical projects. The largest of these is a naphtha cracker with the capacity to produce 330,000 tonnes per annum of ethylene along with smaller satellite plants producing downstream products. This Rs24bn project has yet to be cleared by the government. Other projects, which

include the manufacture of 25,000 tpa of butyl rubber and 80,000 tpa of styrene monomer (both of which are in short supply in India), are at various stages of implementation.

For the moment, however, as Mr Malviya admits: "Brewing and distilling will remain the group's pillars of strength." UB has 30 per cent of the Indian spirits market and supplies 35 per cent of the beer sold in the country.

In his push for growth, Mr Malviya is moving away from a tense hold since UB's inception in 1948 — 100 per cent equity control of all companies in the group by the Malviya family and its associates. Under Mr Malviya, the founder's only son, UB has reversed this policy.

"Earlier, we believed in 100 per cent ownership. Later we thought that we should have at least 51 per cent. Now I feel that 40 per cent is enough for

Gita Piramal finds out there is more than liquor to India's 12th largest business house

control," he says. "Our shareholder base has expanded considerably in recent years and I look forward to welcoming further investors into the UB family."

It is planned systematically to dilute the family stake in at least 20 of the group's 64 companies over the next two years. Most of this will come through convertible debenture issues on a rights basis. In each case, the group's stake will be brought down by not exercising its rights of subscribing to the debentures.

So far, five UB group companies have come to India's stock exchanges, drawing a fairly positive investor response. The investor base has gone up from 15,000 shareholders to 200,000. Group sales increased 18 per cent to Rs10.4bn in the year to March. Profits after tax rose 10 per cent to Rs321m and fixed assets, at Rs4.28bn, were augmented by 29 per cent.

## COUNTRY HOME ADVERTISING

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For further information please call Kimberly Taylor on 01-873 3231/4885.

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Dealings in the Ordinary Shares are expected to commence on 12 October 1989.

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ULSTER INVESTMENT BANK LIMITED

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Cambridge Group plc is a financial services group whose principal activity is the provision and arrangement of finance leasing and lease purchase facilities to customers in Ireland and the United Kingdom. The group also provides confirming facilities, corporate finance advice and, in conjunction with J & E Davy, investment services.

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Ulster Investment Bank Limited  
2 Hume Street  
Dublin 2

and

J & E Davy  
49 Dawson Street  
Dublin 2

6 October 1989

GFSA GOLD QUARTERLIES					
	Gold produced (kg)	After-tax profit (R)	After-tax profit (R)	Earnings per share (cents)	
	Sep 88	June 89	Sep 88	June 89	Sep 88
Deepestal	2,390	2,430	30.7	38.4	13.5
Doornfontein	1,587	1,550	2.3	4.5	(18.9)
Drif Cops	12,951	13,242	119.5	148.2	32.3
Kloof	6,912	6,426	107.7	107.7	51.7
Liberton	1,958	1,740	6.2	1.5	(9.0)
Venterspost	1,489	1,526	(1.2)	0.2	(35.4)
Vaalwater	295	258	0.3	0.2	1.4

Earnings per share calculated after tax and capital expenditures. Parentheses = negative

## Cost rise puts squeeze on Gold Fields mining profit

By Jim Jones in Johannesburg

THE SQUEEZE on gold mining profits has tightened for the Gold Fields of South Africa group as cost rises outstripped modest rises in the rand price of gold in the three months to September.

The cost increases were not unexpected and are generally particularly high every September quarter as the full effects of mid-year pay awards are felt. Nevertheless, deteriorating profits are troubling for an industry which is being forced to curtail major capital spending projects.

The seven GFSA mines as a whole increased gold production to 27,962 kg from the June quarter's 27,572 kg and revenue from gold sales rose to R905.2m (\$537.7) from R894.4m. Total operating costs, however, rose more rapidly to R541.8m from R508.4m, the taxed profit dropped to R256.5m from R288.7m and capital spending was cut to R179.3m from R192.5m.

Several of the group's mines are in a dilemma. The cost/revenue squeeze has rendered many working places unpayable. As a result the mines have to choose between closing the

unprofitable areas and suffering from decreased operating flexibility or increasing underground development rates to establish new mining areas in payable ore. This, in turn, leads to a vicious circle of higher costs leading to more areas being rendered unpayable.

Worst affected in the GFSA group were the marginal mines Venterspost and Doornfontein. Venterspost fell into an operating loss and Mr Alan Wright, a director, reckons the mine will need a rights issue before Christmas to finance development of the new mining area.

In contrast, neighbouring Liberton increased its gold recovery and profit. Doornfontein increased gold production fractionally but has been forced to find external sources of finance for capital expenditure which exceeds profits.

The group's two largest mines, Deepestal Consolidated and Kloof, contrasted sharply. Kloof has largely overcome the mining problems which cut gold recovery to 11.9 grams per tonne in the June quarter and restored its grade to 12.5 g/t in September.

New Issue

All these securities having been sold, this announcement appears as a matter of record only.

October, 1989



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(Mitsubishi Kinzoku Kabushiki Kaisha)  
(Incorporated with limited liability in Japan)

U.S.\$300,000,000

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September, 1989

## INTERNATIONAL COMPANIES AND FINANCE

## Asko's wooing of Ahold moves to courts

By Haig Simonian looks at attempts to force the Dutch company back into talks

Having been spurned by Ahold, its Dutch bride, in last month's three-way European match between Dutch, French and UK retailers, Asko, the big German supermarket group, is trying to achieve what it failed to do at the altar.

This week, lawyers in Haarlem in the Netherlands opened proceedings on the German company's attempt to force Ahold to re-enter into talks if it so summarily broke off after Asko bought a 12.4 per cent slice of its shares.

That acquisition served as the pretext for Asko's ejection from the alliance between Ahold, Casino and Argyl now being assembled.

But the battle of wills between Asko and Ahold is only part of a series of changes which have suddenly arisen in European - and especially German - retailing.

In late September, BAT Industries put its majority stake in Herta, Germany's fourth biggest department store chain, on the block. Co op, the troubled retailing group, looks increasingly like a takeover candidate after its eleventh-hour rescue from bankruptcy last month, and, behind the scenes, a 25 per cent stake in AVA, a large north German food retailer, is also thought to be up for grabs.

Finding buyers for all three will take time, but the speculation about possible purchasers often throws up two names - Asko and Ahold.

For Mr Helmut Wagner, Asko's chief executive, the fit between Asko and Ahold could hardly be better. While both groups would have formed part of the wider European retailing alliance being created, it is

clear that the German and Dutch members were, for Mr Wagner at least, to be particularly close.

"The relationship between Asko and Ahold would have been like that between France and Germany in the European Community," as their interests are so easy to define and so compatible, he says.

That compatibility is based on the fact that Asko has concentrated on big out-of-town hypermarkets, which often share a site with its specialist clothing, do-it-yourself and furniture operations.

By contrast, Ahold has focused on smaller supermarkets, meaning that each could expand in its own specialty on the other's territory.

Mr Wagner claims the breaking point to the four-way talks came as a result of objections by Casino to Asko's long-running joint venture with Promodes, another big French retailer.

Asko and Promodes jointly own Continent, a hypermarket group which has already opened seven stores in Germany, and are working on plans to collaborate more closely in Greece and Portugal.

In Mr Wagner's version, Casino wanted Asko to its relationship with Promodes. That was unacceptable to the Germans, as they had already signed a letter of intent with Promodes for it to join Interbuy, the joint Swiss-based purchasing organisation established by Asko and its associate companies about two years ago, he says.

"The trouble was we were too close to the other side," says Mr Wagner. In response to Ahold's accusation that Asko had shown itself to

be unreliable. He strenuously denies any hostile intentions towards Ahold. Rather, the shares were purchased to prevent their falling into the wrong hands.

"If we had wanted to do something bad behind Ahold's back, we could have sold the shares to anyone which would have carried them while Asko continued its talks with Ahold," he insists.

In his interpretation of events, it is Asko's willingness to stand by its commitment to Promodes which led to its exclusion from the new alliance.

But it is hard to imagine Asko joining the other three retailers in a new purchasing organisation when it has its own candidate, Interbuy, waiting in the wings.

So far, Interbuy is limited to members of the Asko group and Massa, the German retailer with which Asko is closely involved.

Mr Wagner has repeatedly presented Interbuy as the stepping stone to a series of wider European retailing alliances, starting on the purchasing side and possibly extending into sales.

Although Interbuy will only be ready to accept new members from January 1, 1990, it is talking to a number of groups, according to Mr Wagner. However, he refuses to confirm who they are, or to confirm whether Promodes will be the first outsider to come on board.

As for Associated Marketing Services, the joint marketing entity comprising the group of retailers from which Asko has now been excluded, he has little to add.

The new operation "has no structure" compared to Interbuy, and will "just be a club to talk things over," he says. And he is equally sceptical as to whether the European retailers will be able to find a German partner to take Asko's place.

While the chances of Asko rejoining the European group are minimal, it is equally hard to see how its relationship with Ahold can progress, in spite of its recourse to the courts.

The first round has already gone to the Dutch. On learning of Asko's stake, Ahold swiftly adopted the classic national defence of issuing new preferred shares to a linked foundation in order to dilute the less-than-welcome German interest.

Nevertheless, Asko, which has something over 15 per cent of Ahold's equity, is following a tenacious carrot and stick approach.

It has offered to stop buying more shares as a way of underlining its friendly intentions, and to transfer its voting rights in the stock it already has to the foundation while the two companies patch up their differences.

Mr Wagner has even said he is willing to offer the Dutch a 15 per cent to 20 per cent stake in Asko itself.

Behind the blandishments, however, comes the suggestion that Asko could turn to less pleasant forms of persuasion. Although its voting rights have been effectively halved by the issue of Ahold's new preference shares, it could buy more shares in the market to raise its voting stake to the 10 per cent level. This, according to Mr Wagner, is an important trigger under Dutch law, allowing shareholders certain infor-

mation and rights in decision-making which could be troublesome to Ahold's management.

"I would feel uncomfortable as a Dutch company if a bad boy has 10 per cent," he notes, while simultaneously stressing Asko's lack of such intentions.

Meanwhile, Ahold is refusing to comment on the latest turn of events pending the conclusion of the court case, expected on about October 10. And further information may emerge at the extraordinary general meeting Ahold has called for October 12.

However, that meeting, which is designed to approve certain changes to the company's articles of association, including an increase to 100m (188m) from 71.5m in its authorised share capital, is itself turning into a bone of contention.

Asko appears determined to prevent a rise in Ahold's authorised capital being approved - perhaps for fear of a rights issue thereafter, which could further reduce its stake. Hence its attempts to have the relevant clause removed from the agenda.

Agreement to do so would eliminate the need to seek "a legal clarification" to the differences between the two companies, according to an elliptical statement from its Saarbrücken headquarters in late September.

While Ahold maintains its silence, suggestions are already mounting in Germany that, given the unprecedented acquisition opportunities now available in the market, it may just decide to take the battle into Asko's own camp.

## Dutch Deloitte's defects to join Coopers

By David Waller in London

DELOITTE Dijkster Van Dien, the second largest firm of accountants and tax advisers in the Netherlands, yesterday defecting from the Deloitte, Haskins & Sells International practice to join Coopers & Lybrand, another of the "big eight" multinational professional services firms.

The move came after the announcement on Wednesday that Deloitte's UK firm was

joining Coopers instead of proceeding with a merger with Touche Ross International. Touche Ross and Deloitte have merged in the US, France and Japan to create a firm with estimated annual revenues of over \$30m.

Dijkster Van Dien said yesterday that Deloitte's decision in the UK was the main reason for the change of affiliation. Industry sources suggested

that this would be only the first of a series of such defections throughout the world.

Deloitte's Dutch firm generated revenue of Dfl 565m (US\$228m) in its last financial year. It employs 4,200 partners and personnel working from more than 40 offices in the Netherlands. It is a good fit for Coopers which before the merger had only the sixth largest Dutch firm, with fee

income of some \$25m. The combined firm will rival the recently merged Dutch practices of Ernst & Whinney and Arthur Young for the country's number one slot.

Coopers said the deal propelled it to second place in Europe, with fee income of \$1.623bn against the \$1.72bn generated by KPMG. The Dutch merger is to take effect from January 1 1990.

## Repsol buys 10% of Java

REPSOL, the Spanish energy conglomerate, yesterday said it had paid \$100m for a 10 per cent stake in the North West Java production sharing contract in Indonesia, writes Peter Bruce in Madrid.

Repsol, which owned 2.45 per cent of the operation, bought the share from the US's Maxus Energy. The sale, still subject to approval, makes Repsol the third partner in the contract, after Arco and Maxus.

## COMPANY NOTICES

## NOTICE TO WARRANT-HOLDERS OF MITSUBISHI FINANCE (HONG KONG) LIMITED

U.S.\$100,000,000 12½ per cent Guaranteed Notes due 1999, with Warrants to purchase U.S.\$100,000,000 12½ per cent Guaranteed Notes due 1991.

Notice is hereby given, in accordance with clause 7 of the Warrant Agreement dated 28th November, 1984, that the day for deposit of Warrant Exercise Notices to purchase U.S.\$1,000,000 principal amount of 12½ per cent Guaranteed Notes due 1991 of the Company will be 31st October, 1989 in Brussels and 30th October, 1989 in Luxembourg.

THE MITSUBISHI BANK, LIMITED  
London Branch  
as Warrant Agent

Dated 6th October, 1989

## LEGAL NOTICES

## Pavilion Leisure Holdings plc

A Petition has been presented to the Court of Session by Pavilion Leisure Holdings plc having its registered office at 121 Bedford Street, Glasgow for confirmation of resolution of the shareholders of the company. The Court by interlocutor dated 28th September ordered confirmation of the resolution and appointed all parties claiming an interest to lodge answers thereto, if so advised, within 21 days of such intimation and advertisement, of all such intimation is hereby made.

3rd St George's Place, W.1, London  
Ordnance House, 30 Queen's Road, Edinburgh  
Agents for the Petitioner.

## Pneumatic Systems (Engineers) Limited

Registered in the UK: 004725  
Trading name: Pneumatic Systems (Engineers) Limited  
Home and address of joint administrative receivers:  
D J Stokes & C J Hughes Court Gully  
1 St Pauls, Sheffield  
S1 1ET  
Office Holder number: 282 and 281  
Date of appointment: 28 September 1989  
Name of appointor: National Westminster Bank Plc

## INSOLVENCY ACT 1986

## IN THE HIGH COURT OF JUSTICE

## IN THE BANKRUPTCY

## CYRIL BERNARD ASHBERG

of 14 Laurel Way, London N20 formerly trading as Ashberg & Co, 100a North Circular, London N1-SAD as a Tobacco Dealer.

I John Colin Martin Bishop, of Cork Gully, Sheffield House, 3 Noble Street, London EC2R 7DD

HEREBY GIVE NOTICE that I have been duly appointed Trustee of the above named bankrupt at a meeting of creditors and that my appointment was duly certified by the Official Receiver on 16 September 1989.

All persons having in their possession any of the assets of the bankrupt must deliver them to me, and all debts due to the bankrupt must be paid to me.

Creditors who have not yet proved their debts must forward their Proofs of Debt to me.

Dated this 28th day of September 1989  
John Colin Martin Bishop  
Trustee

## TORAY INDUSTRIES, INC.

(formerly Toyo Rayon Kabushiki Kaisha)

United Kingdom shareholders are advised that copies of the Annual Report for the year ended 31st March, 1989 are now available from:

S. G. Warburg & Co. Ltd.  
Paying Agency,  
2 Finsbury Avenue,  
London EC2M 2PA

or from the Company Secretary,  
Toray Industries, Inc.,  
2000 West 12th Street,  
Vancouver, B.C. V6J 1A1

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## PUBLIC NOTICE

SHERMAN, KNEELAND, FENNER &amp; SMITH

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SHERMAN, KNEELAND, FENNER &amp; SMITH

This announcement appears as a matter of record only

**Skipsfinansgruppen**

US \$ 40,000,000  
Revolving Credit Multi-Currency  
Loan Facilities

Arranged by  
PRIVATbanken Limited

Provided by  
PRIVATBANKEN LIMITED  
DRESDNER BANK LUXEMBOURG SA  
SPARKASSET 505  
SKOPBANK  
BANCA POPOLARE DI MILANO  
RAN OVERSEAS INVESTMENT BANK LIMITED  
NORDDEUTSCHE LANDESBANK LUXEMBOURG SA  
SOCIETE GENERALE ALSCHEMME DE BANQUE  
FOURTH SPARKBANK  
GULF RYAD BANK EC  
LONDON FORBANKING COMPANY PLC  
WESTALBANK INTERNATIONAL SA  
FORENINGSBANKER NAS BANK

**PRIVATbanken**  
Limited

As Agent

July 1989

This announcement appears as a matter of record only

**MUNICIPALITY OF ATHENS**

USD 25,000,000  
Transferable Term Loan Facility

Arranged by  
PRIVATbanken Limited

Provided by  
PRIVATBANKEN LIMITED  
DEUTSCHE GROSZENTRALE INTERNATIONALE SA  
THE INDUSTRIAL BANK OF JAPAN LIMITED  
CREDIT COMMUNAL DE BELGIQUE /  
GEMEENTEKREDIET VAN BELGIE NV

**PRIVATbanken**  
Limited

As Agent

June 1989

This announcement appears as a matter of record only

**THE SILVER CARRIER FLEET**  
under the management of  
**SILVER CARRIERS S.A. (PRINAMA)**

US \$ 6,675,000  
Second Mortgage Loan Facility

Provided by  
PRIVATbanken Limited

and

US \$ 36,000,000  
First Mortgage Loan Facility

Provided by  
PRIVATbanken Limited  
Banque Louis-Dreyfus  
Norges Hypotekbank A/S  
Qatar National Bank SAQ  
Varde Bank A/S

Arranged by  
**PRIVATbanken**  
Limited

As Agent

May 1989

This announcement appears as a matter of record only

**AVIOGENEX**

USD 25,000,000  
Secured Financing of  
two Boeing 737 - 200A aircraft

Guaranteed by  
BSE Genex Company Limited

Arranged by  
PRIVATbanken Limited

Funds Provided by  
KB Financial Services (Ireland) Limited  
Norges Hypotekbank A/S  
PRIVATbanken Limited  
Varde Bank A/S

**PRIVATbanken**  
Limited

As Agent

August 1989

**NOTICE OF REDEMPTION**

**Q Can \$60,000,000**  
**Hydro-Québec**

14% Debentures, Series FC, Due 15th November, 1992

NOTICE IS HEREBY GIVEN THAT Hydro-Québec will redeem on 15th November, 1989 the Can\$ 60,000,000 debentures outstanding for the 14% Debentures Series FC due 1992 at a price of 101% of the principal amount together with interest on such principal amount accrued and unpaid to the said date of redemption.

The redemption price on the said Debentures shall be payable on presentation and surrender thereof with all unattached coupons at any one of the following Paying Agents:

Bank of Montreal, 9 Queen Victoria Street, London, EC4N 3LN, England.  
Back of Montreal, 119 St. James Street West, Montreal, H2Y 1K6, Canada.  
S.G. Warburg & Co. Ltd., Paying Agency, 2 Finsbury Avenue, London, EC2M 2ER, England.  
Commerzbank AG, 32-36 Neue Mainzer Strasse, Frankfurt 25-34, D-6000 Frankfurt (Main) 1, West Germany.  
Swiss Bank Corporation, Aschenmattstrasse 1, Bâle, Switzerland.  
Société Générale, 29 Boulevard Haussmann, F-75009, Paris, France.  
Bank Mees and Bode NV, Herengracht 548, Amsterdam, The Netherlands.  
Kreditbank SA, Luxembourg, 45 Boulevard Royal, Luxembourg.  
Kreditbank NV, 7 Rue D'Alcambert, B-1000 Brussels, Belgium.

DEBENTURES SHOULD BE SURRENDERED WITH ALL COUPONS APPERTAINING THEREOF MATURING AFTER THE DATE OF REDEMPTION, FAILING WHICH THE FACE VALUE OF ANY MISSING UNATTACHED COUPON WILL BE DEDUCTED FROM THE SUM DUE FOR PAYMENT.

Any amount so deducted will be paid against surrender of the missing coupon within a period of 10 years from the 15th November, 1989. From and after the date fixed for redemption, interest on the Debentures will cease to accrue.

Dated: 6th October 1989

**HYDRO-QUÉBEC**

**To the Holders of Warrants**  
to subscribe for shares of common stock of  
**SUMITOMO FORESTRY CO., LTD.**  
(the "Company")

(Issued in conjunction with issues by  
the Company of U.S.\$100,000,000 5% per cent.  
Guaranteed Bonds Due 1992 with Warrants  
and  
of U.S.\$150,000,000 4% per cent.  
Guaranteed Bonds Due 1993 with Warrants)

Notice is hereby given, in accordance with clause 4 (E) (ii) of each of the Instruments by way of deed poll dated 29th September, 1988 and 9th February, 1989 made by the Company in connection with its issue of bearer warrants to subscribe for shares of common stock of the Company that the Company established the record date for the purpose of determining the shareholders entitled to receive any interim dividend (being a cash distribution pursuant to Article 293-5 of the Commercial Code of Japan) being 30th September in each year.

Dated: 6th October 1989.

The Sumitomo Bank, Limited  
Principal Paying Agent.

**CHRYSLER CORPORATION**

has sold  
75,000,000 Shares  
of the Common Stock of

**Mitsubishi Motors Corporation**

The undersigned acted as financial advisors to  
Chrysler Corporation.

**LAZARD FRÈRES & Co.**  
New York

**LAZARD FRÈRES K.K.**  
Tokyo

October 4, 1989

## Nymex appoints president

By Katharine Campbell

THE BOARD of the New York Mercantile Exchange yesterday named Mr Patrick Thompson as its new president.

The appointment follows the surprise resignation in July of the long-serving and popular president, Mr Rosemary McFadden, after an apparently bitter internal power struggle.

Mr Thompson, who held the position of executive vice president, has effectively been running the market for the past three months, while the exchange has conducted a "rigorous search" for outside candidates.

The new president has a strong background in regulatory and compliance matters, having served as the supervisory attorney at the New York office of the federal regulator, the Commodity Futures Trading Commission.

He later worked in the compliance department of the exchange before becoming its general counsel. He has also been a trader on the floor of Nymex.

## Potash Corp in three tranche share issue

By Rachel Johnson

THE POTASH Corporation of Saskatchewan, the largest miner and producer of potash in the West which was privatised by the province of Saskatchewan last month, has launched a share issue likely to be worth more than \$200m when the shares are priced in November.

The issue will be offered in three tranches, representing 37 per cent of the company's capital. Of the total offering of 12.95m shares to be priced between \$15.33 and \$17, initially about 20 per cent will be offered to investors outside the US and Canada. Credit Suisse First Boston is underwriting the offering, with a bank to be named later.

The remaining shares are to be split evenly between Canada and the US, where the underwriters are respectively Wood Gundy and Merrill Lynch.

There is currently no market for the shares. Applications will be made for listings on the Toronto, Montreal and New York Stock Exchanges.

Mr Adrianus Mooy, bank governor, said the bank will set rupiah rates twice a day and intervene in the market. Now it uses a secret currency basket to set a six rupiah range to the dollar each morning, then leaves trading up to commercial banks.

"This new measure will allow the central bank to intervene on the foreign exchange market if necessary, as is done internationally. But we will still decide the rate," Mr Mooy added that the changes would take effect "maybe in a week."

Indonesia has no official foreign exchange controls but maintains what one official

## Capital Holding opens office to serve Europe

By Andrew Freeman

CAPITAL Holding, the US life insurance and financial services group based in Louisville, Kentucky, opened a London office yesterday to serve its expansion into Europe.

The company will offer specialist financial products to institutions via its subsidiary, Capital Initiatives.

The US company has \$13.6m worth of assets and some \$43m worth of life insurance business. Its London operation will concentrate on marketing tailor-made investment products to institutions which have special interest rate and cash-flow requirements.

Capital Holdings was the first to offer an Indexed Guaranteed Investment Contract (IGIC) when it launched the product in the US in 1982. It currently has more than \$4m in indexed IGICs, and has had success in selling the product outside the US.

## Fee-owing brokers banned from dealing

THE Indonesian Government has stopped 26 stockbrokers from operating or issuing shares until they pay back arrears to the Government, Reuters reports.

Junior Finance Minister Mr Nasrudin Sumintapura says: "It's a warning. If they cannot pay we will ban them," he said. The brokers, of a total of 76 in the fast-growing Indonesian market, have failed to pay transaction fees to the Government.

Mr Sumintapura reiterated that the Government is planning to simplify stock market regulations, but he gave no details.

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## Donald Duck puts \$2bn tag on Euro Disneyland

By Clara Pearson

SHARES in Euro Disneyland, the operating company for the US leisure concern's latest theme park under construction outside Paris, are to be priced at FF72 each when they join the Paris and London stock exchanges early next month.

The shares are to be distributed throughout the European Community. The sterling depositary receipts which comprise the UK offer-for-sale portion of the issue have been priced at 70p.

Disney said the pricing - which values the shares for public issue at \$87m, and the whole company at nearly \$2bn - reflected strong interest from investors. It was slightly above the FF60 to FF70 range highlighted by the company's preliminary prospectus.

The shares were quoted on

the grey market in France at FF65 yesterday afternoon.

Yesterday's announcements were made simultaneously outside the Paris bourse and at Broadgate arena in the City of London, in characteristic Walt Disney theatrical style.

In London, the price, heralded by Donald Duck, was displayed as a configuration of red balloons which exploded and announced amidst torrents of silver foil confetti, fireworks and dancers prancing to well-known tunes from Disney films.

Disney aims to sell 50 per cent of the shares in France and about 35 per cent in the UK, divided equally between an institutional offering and an offer-for-sale. Belgium and Luxembourg are the next biggest destinations, with 6.8 per cent

between them, while West Germany is to receive 5.2 per cent.

Mr John Ferguson, treasurer of the Walt Disney Company, said the allocation would be biased towards individuals. The company hoped to attract about 500,000 private investors across Europe to buy the 85.8m shares, he said.

The shares will not pay a dividend until 1993, after the first phase of the park has been open for a year.

The issue was a requirement imposed by the EC after Disney, which holds about half the equity in the operating company, obtained permission from the French Government to build on the 4,900-acre site in Marne la Vallée.

The prospectus for the UK offer-for-sale will appear next Monday.

## Indonesia to intervene in forex

BANK Indonesia, the country's central bank, is planning to play a more active role in the foreign exchange market in a move away from a free-floating rate, one banker said.

Mr Adrianus Mooy, bank governor, said the bank will set rupiah rates twice a day and intervene in the market. Now it uses a secret currency basket to set a six rupiah range to the dollar each morning, then leaves trading up to commercial banks.

"This new measure will allow the central bank to intervene on the foreign exchange market if necessary, as is done internationally. But we will still decide the rate," Mr Mooy added that the changes would take effect "maybe in a week."

Indonesia has no official foreign exchange controls but maintains what one official

calls a "free dirty float" and effectively dictates the supply of dollars to the market. "This move could be regarded as an eventual free-floating rate," one banker said.

Bankers have long speculated that the Government would introduce this, but say the authorities are afraid that without controls the rupiah could be badly weakened.

"Among efforts to maintain monetary stability, balance of payments (equilibrium) and foreign reserves, we are getting realistic foreign exchange rates," Mr Mooy said.

The bank will now set indicative rates at 0100 GMT and spot rates at 0800 GMT from Monday to Friday, and at 0430 GMT on Saturday.

The central bank has encouraged a gradual depreciation of the rupiah and bankers speculate that its depreciation target

this year is about five per cent.

To keep monetary stability, the development of the foreign exchange market needs to be integrated with the development of the rupiah market, Mr Mooy said.

He added that both markets need brokerage houses to develop better information. There is now only one house controlled by the central bank.

"This does not mean that the increased involvement of Bank Indonesia is to create a shock in the market but rather to avoid any shock."

The morning indicative rates will be developed to apply to swaps, re-swaps and central bank discount money orders for exports.

The bank will provide information on the amount of money on the foreign exchange market, including interbank dealings.

## FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

US DOLLAR							YEN							Change in						
	Interest	Bid	Offer	Day	Week	Yield		Interest	Bid	Offer	Day	Week	Yield		Interest	Bid	Offer	Day	Week	Yield
STRAIGHTS							YEN STRAIGHTS													
Canada 6 1/2% 94	175	100 1/2	101 1/2	0	0	8.51	Canada 6 1/2% 94	80	100 1/2	101 1/2	0	0	8.51	Canada 6 1/2% 94	80	100 1/2	101 1/2	0	0	8.51
B.F.C.E. 9 1/4% 95	120	100 1/2	101 1/2	0	0	8.51	B.F.C.E. 9 1/4% 95	80	100 1/2	101 1/2	0	0	8.51	B.F.C.E. 9 1/4% 95	80	100 1/2	101 1/2	0	0	8.51
FRN 10% 94	120	100 1/2	101 1/2	0	0	8.51	FRN 10% 94	80	100 1/2	101 1/2	0	0	8.51	FRN 10% 94	80	100 1/2	101 1/2	0	0	8.51
Germany 5 1/2% 94	100	101 1/2	102 1/2	0	0	8.51	Germany 5 1/2% 94	80	101 1/2	102 1/2	0	0	8.51	Germany 5 1/2% 94	80	101 1/2	102 1/2	0	0	8.51
Italy 10% 94	100	101 1/2	102 1/2	0	0	8.51	Italy 10% 94	80	101 1/2	102 1/2	0	0	8.51	Italy 10% 94	80	101 1/2	102 1/2	0	0	8.51
Spain 10% 94	100	101 1/2	102 1/2	0	0	8.51	Spain 10% 94	80	101 1/2	102 1/2	0	0	8.51	Spain 10% 94	80	101 1/2	102 1/2	0	0	8.51
Japan 10% 94	100	101 1/2	102 1/2	0	0	8.51	Japan 10% 94	80	101 1/2	102 1/2	0	0	8.51	Japan 10% 94	80	101 1/2	102 1/2	0	0	8.51
Sweden 10% 94	100	101 1/2	102 1/2	0	0	8.51	Sweden 10% 94	80	101 1/2	102 1/2	0	0	8.51	Sweden 10% 94	80	101 1/2	102 1/2	0	0	8.51
Switzerland 10% 94	100	101 1/2	102 1/2	0	0	8.51	Switzerland 10% 94	80	101 1/2	102 1/2	0	0	8.51	Switzerland 10% 94	80	101 1/2	102 1/2	0	0	8.51
Belgium 10% 94	100	101 1/2	102 1/2	0	0	8.51	Belgium 10% 94	80	101 1/2	102 1/2	0	0	8.51	Belgium 10% 94	80	101 1/2	102 1/2	0	0	8.51
Netherlands 10% 94	100	101 1/2	102 1/2	0	0	8.51	Netherlands 10% 94	80	101 1/2	102 1/2	0	0	8.51	Netherlands 10% 94	80	101 1/2	102 1/2	0	0	8.51
Australia 10% 94	100	101 1/2	102 1/2	0	0	8.51	Australia 10% 94	80	101 1/2	102 1/2	0	0	8.51	Australia 10% 94	80	101 1/2	102 1/2	0	0	8.51
New Zealand 10% 94	100	101 1/2	102 1/2	0	0	8.51	New Zealand 10% 94	80	101 1/2	102 1/2	0	0	8.51	New Zealand 10% 94	80	101 1/2	102 1/2	0	0	8.51
South Africa 10% 94	100	101 1/2	102 1/2	0	0	8.51	South Africa 10% 94	80	101 1/2	102 1/2	0	0	8.51	South Africa 10% 94	80	101 1/2	102 1/2	0	0	8.51
Portugal 10% 94	100	101 1/2	102 1/2	0	0	8.51	Portugal 10% 94	80	101 1/2	102 1/2	0	0	8.51	Portugal 10% 94	80	101 1/2	102 1/2	0	0	8.51
Greece 10% 94	100	101 1/2	102 1/2	0	0	8.51	Greece 10% 94	80	101 1/2	102 1/2	0	0	8.51	Greece 10% 94	80	101 1/2	102 1/2	0	0	8.51
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Denmark 10% 94	100	101 1/2	102 1/2	0	0	8.51	Denmark 10% 94	80	101 1/2	102 1/2	0	0	8.51	Denmark 10% 94	80	101 1/2	102 1/2	0	0	8.51
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# Group Precious Metal Mining Companies' Reports for the quarter ended 30 September 1989

All companies are incorporated in the Republic of South Africa

## Driefontein Consolidated

Driefontein Consolidated Limited  
(Registration No. 69/04889/05)

ISSUED CAPITAL: 304 000 000 shares of 50 cents each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>OPERATING RESULTS</b>		
Gold - East Driefontein		
Ore milled (t)	720 000	720 000
Gold produced (kg)	5 760.0	6 192.1
Yield (g/t)	8.0	8.6
Price received (R/kg)	32 357	32 113
Revenue (R/milled)	256 222	276 535
Cost (R/t milled)	134.21	125.05
Profit (R/t milled)	122.01	151.48
Revenue (R000)	196 640	199 119
Cost (R000)	96 632	88 599
Profit (R000)	90 008	110 520
Gold - West Driefontein		
Ore milled (t)	705 000	705 000
Gold produced (kg)	7 191.0	7 050.0
Yield (g/t)	10.2	10.0
Price received (R/kg)	32 281	31 598
Revenue (R/milled)	228 755	220 811
Cost (R/t milled)	139.31	144.52
Profit (R/t milled)	170.44	176.29
Revenue (R000)	232 472	225 889
Cost (R000)	112 312	102 170
Profit (R000)	120 160	123 719
<b>FINANCIAL RESULTS (R000)</b>		
Working profit Gold	218 168	234 329
Tribute royalties	506	1 074
Net mining revenue	218 674	235 403
Net sundry revenue (group)	20 485	26 026
Recovery under loss of profits insurance	1 258	—
Profit before tax and State's share of profit	232 417	261 351
Tax and State's share of profit	112 895	113 189
Profit after tax and State's share of profit	119 522	148 162
Capital expenditure	53 554	60 494
Dividend	—	264 800

CAPITAL EXPENDITURE. The unexpended balance of authorised capital expenditure at 30 September 1989 was R61.7 million.

DIVIDEND. A dividend (No. 32) of 120 cents per share was declared on 13 June 1989, and was paid to members on 9 August 1989.

### SHAFTS

#### EAST DRIEFONTEIN

No. 5 Sub-Vertical Shaft-E. The shaft was sunk 63 metres to a depth of 1 499 metres below the collar. The excavation of 30 level station and development to the same pass position are in progress.

No. 1 Tertiary Shaft-E. The hoist foundations were completed and the gantry installed in the rock-winder chamber. The installation of the gantry in the main-winder chamber is in progress. Sliding and lining of the headgear openings.

#### WEST DRIEFONTEIN

No. 9 Sub-Vertical Shaft-W. The excavation of the first winder chamber on 21 level and of the platform-winder chamber on 23 level continues.

RESIDUE DUMP RESTRAIMENT. The reclamation of residues will commence early in October.

On behalf of the board  
R. A. Plimbridge  
A. J. Wright } Directors

5 October 1989

## Northam

Northam Platinum Limited  
(Registration No. 77/03282/05)

ISSUED CAPITAL: 28 800 000 shares of 1 cent each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>Pre-production Mine Development Expenditure (R000)</b>		
Capital expenditure	32 770	41 074
Net income after tax	4 730	5 980
	28 040	37 094

All income and expenditure has been capitalised as pre-production mine development expenditure.

CAPITAL EXPENDITURE. The unexpended balance of authorised capital expenditure at 30 September 1989 was R67.9 million.

### SHAFTS

#### ZONDERENDRE

No. 1 Shaft-Z. The shaft was sunk 84 metres to a depth of 1 738 metres below collar. The excavation of 7 level station was completed and the excavation of 8 level station was started.

The Mercury Reef was intersected in the shaft at 1 708 metres below collar. The results are tabulated below:

NEBENSKY REEF	STOPING	3 ELEMENT PGM + AU GRADE	Cu	IN
LOCALITY	WIDTH (cm)	g/t	cm/g	(%)

No. 1 Shaft-Z. The shaft was sunk 60 metres to a depth of 1 802 metres below collar. The excavation of the first station (9 Level) is in progress.

The UG2 reef was intersected in the shaft at an elevation of 1 742 metres below collar. The values obtained are tabulated below:

UG 2 REEF	STOPING	3 ELEMENT PGM + AU GRADE	Cu	IN
LOCALITY	WIDTH (cm)	g/t	cm/g	(%)

No. 2 Shaft-Z. The shaft was sunk 60 metres to a depth of 1 802 metres below collar. The excavation of the first station (9 Level) is in progress.

The UG2 reef was intersected in the shaft at an elevation of 1 742 metres below collar. The values obtained are tabulated below:

UG 2 REEF	STOPING	3 ELEMENT PGM + AU GRADE	Cu	IN
LOCALITY	WIDTH (cm)	g/t	cm/g	(%)

METALLURGICAL COMPLEX. Work is continuing on the erection of the base metal removal plant building. The autoclave and some auxiliary equipment have been installed. Cold commissioning is scheduled for July 1990.

The civil work for the smelter is 90% complete and the erection of the smelter building is scheduled to start. A start has been made to the steelwork for the converter and the drying plant is 40% complete. The foundations for the stack were completed and the sides of the stack is about to commence.

The "3 Element PGM + Au Grade" refers to the combined grade of platinum, palladium, rhodium and gold.

On behalf of the board  
A. J. Wright  
M. J. Togg } Directors

5 October 1989

## Vlaktefontein

Vlaktefontein Gold Mining Company Limited  
(Registration No. 05/06159/05)

ISSUED CAPITAL: 6 800 000 shares of 20 cents each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>OPERATING RESULTS</b>		
Gold - Drogenbos		
Ore milled (t)	52 285	41 453
Gold produced (kg)	146.9	111.5
Yield (g/t)	2.9	2.7
Price received (R/kg)	32 378	31 723
Revenue (R/milled)	92.58	85.40
Cost (R/t milled)	89.34	87.57
Profit/(loss) (R/t milled)	3.24	(2.17)
Revenue (R000)	4 835	3 540
Cost (R000)	4 664	3 630
Profit/(loss) (R000)	169	(90)
Gold - Surface sources		
Ore milled		
from surface dumps (t)	66 076	66 305
from outside sources (t)	91 721	102 242
Total milled (t)	157 797	168 547
Gold produced (kg)	146.5	146.4
Yield (g/t)	0.9	0.9
Price received (R/kg)	32 378	31 723
Revenue (R/milled)	30.15	27.91
Cost (R/t milled)	30.70	30.04
Loss (R/t milled)	(0.57)	(1.13)
Revenue (R000)	4 755	4 688
Cost (R000)	4 845	4 879
Loss (R000)	(90)	(191)
<b>FINANCIAL RESULTS (R000)</b>		
Working profit/(loss) Gold	79	(281)
Net sundry revenue	227	197
Profit/(loss) before tax and State's share of profit	306	(84)
Tax and State's share of profit	6	(329)
Profit after tax and State's share of profit	300	265
Capital expenditure	205	177

CAPITAL EXPENDITURE. The unexpended balance of authorised capital expenditure at 30 September 1989 was R2.4 million.

DIVIDEND. The final dividend was passed.

On behalf of the board

M. J. Togg  
A. J. Wright } Directors

5 October 1989

## Venterspost

Venterspost Gold Mining Company Limited  
(Registration No. 05/06632/05)ISSUED CAPITAL: 20 200 000 ordinary shares of 25 cents each, fully paid.  
4 800 000 deferred shares of 25 cents each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>OPERATING RESULTS</b>		
Gold		
Ore milled (t)	405 000	412 000
Gold produced (kg)	1 488.7	1 526.1
Yield (g/t)	3.7	3.7
Price received (R/kg)	32 255	31 952
Revenue (R/milled)	118.79	118.57
Cost (R/t milled)	126.95	119.00
Loss (R/t milled)	(8.16)	(0.43)
Revenue (R000)	48 112	48 890
Cost (R000)	51 416	49 028
Loss (R000)	(3 304)	(178)
<b>FINANCIAL RESULTS (R000)</b>		
Working loss Gold	(3 304)	(178)
Net sundry revenue	695	1 075
Recovery under loss of profits insurance	3 405	—
Profit before tax	794	897
Tax	1 977	744
(Loss)/profit after tax	(1 183)	151
Capital expenditure	529	2 912
No. 4 Shaft Project	7 514	8 329
Dividend	—	7 070

CAPITAL EXPENDITURE. The unexpended balance of authorised capital expenditure at 30 September 1989 was R105.5 million.

DIVIDEND. A dividend (No. 96) of 35 cents per share was declared on 13 June 1989, and was paid to members on 9 August 1989.

PRODUCTION. The milling rate for July dropped to 125 000 tons as a result of the underground fire first reported in June 1989. The milling rate was restored to 140 000 tons in August.

No. 4 SHAFT. The pre-sink was completed to 87 metres below the collar. The hoist winder was commissioned and shaft sinking is scheduled to start in October.

The haulage on 10 Level from No. 1 Sub-Vertical Shaft towards No. 4 Shaft advanced 479 metres to 1 411 metres.

On behalf of the board

M. J. Togg  
A. J. Wright } Directors

5 October 1989

## Libanon

Libanon Gold Mining Company Limited  
(Registration No. 05/06381/05)

ISSUED CAPITAL: 40 000 000 shares of 20 cents each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>OPERATING RESULTS</b>		
Gold		
Ore milled (t)	435 000	435 000
Gold produced (kg)	1 598.1	1 740.0
Yield (g/t)	3.7	4.0
Price received (R/kg)	32 318	31 899
Revenue (R/milled)	145.78	127.83
Cost (R/t milled)	154.07	127.12
Profit (R/t milled)	11.71	0.71
Revenue (R000)	63 415	55 609
Cost (R000)	58 323	55 297
Profit (R000)	5 092	308
<b>FINANCIAL RESULTS (R000)</b>		
Working profit Gold	5 092	308
Net sundry revenue	1 856	1 886
Profit before tax	6 948	2 194
Tax	747	744
Profit after tax	6 201	1 450
Capital expenditure	9 806	7 533
Dividend	—	8 000

CAPITAL EXPENDITURE. The unexpended balance of authorised capital expenditure at 30 September 1989 was R50.7 million.

DIVIDEND. A dividend (No. 77) of 20 cents per share was declared on 13 June 1989, and was paid to members on 9 August 1989.

On behalf of the board

M. J. Togg  
A. J. Wright } Directors

5 October 1989

## Doornfontein

Doornfontein Gold Mining Company Limited  
(Registration No. 05/24709/05)

ISSUED CAPITAL: 40 000 000 shares of 25 cents each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>OPERATING RESULTS</b>		
Gold		
Ore milled (t)	399 000	390 000
Gold produced (kg)	1 967.3	1 940.6
Yield (g/t)	5.0	5.0
Price received (R/kg)	32 315	32 020
Revenue (R/milled)	163.23	160.26
Cost (R/t milled)	160.35	150.60
Profit (R/t milled)	2.90	9.66
Revenue (R000)	63 662	62 502
Cost (R000)	62 530	58 733
Profit (R000)	1 132	3 769
<b>FINANCIAL RESULTS (R000)</b>		
Working profit Gold	1 132	3 769
Net sundry revenue	1 935	2 146
Profit before tax	3 067	5 915
Tax	762	1 308
Profit after tax	2 305	4 607
Capital expenditure	9 745	12 820
Dividend	—	2 000

CAPITAL EXPENDITURE. The unexpended balance of authorised capital expenditure at 30 September 1989 was R69.5 million.

DIVIDEND. A dividend (No. 65) of 5 cents per share was declared on 13 June 1989, and was paid to members on 9 August 1989.

On behalf of the board

A. J. Wright  
M. J. Togg } Directors

5 October 1989

## Kloof

Kloof Gold Mining Company Limited  
(Registration No. 64/04462/05)

ISSUED CAPITAL: 121 100 000 shares of 25 cents each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>OPERATING RESULTS</b>		
Gold		
Ore milled (t)	540 000	540 000
Gold produced (kg)	6 932.0	6 426.1
Yield (g/t)	12.8	11.9
Price received (R/kg)	32 356	32 102
Revenue (R/milled)	214.90	212.97
Cost (R/t milled)	188.70	191.52
Profit (R/t milled)	226.20	191.45
Revenue (R000)	224 046	206 805
Cost (R000)	101 899	102 422
Profit (R000)	122 147	104 383
<b>FINANCIAL RESULTS (R000)</b>		
Working profit Gold	122 147	102 383
Net sundry revenue	7 098	6 666
Profit before tax and State's share of profit	129 245	110 049
Tax and State's share of profit	21 522	2 331
Profit after tax and State's share of profit	107 723	107 718
Capital expenditure	80 462	78 989
Dividend	—	78 715
Issue of debentures	35 425	—

CAPITAL EXPENDITURE. The unexpended balance of authorised capital expenditure at 30 September 1989 was R81.6 million.

(b) Included in the total of capital expenditure for the quarter ended 30 September 1989 is an amount of R55.0 million in respect of Leerdooien.

DIVIDEND. A dividend (No. 39) of 65 cents per share was declared on 13 June 1989, and was paid to members on 9 August 1989.

DEBENTURES. A final call of R13.00 per debenture was made on the holders of the partly paid unsecured convertible debentures and was paid on 3 July 1989.

### SHAFTS

#### KLOOF

No. 4 Sub-Vertical Shaft-K. The shaft was sunk 244 metres to a depth of 338 metres below the collar.

#### LEERDOOIN

No. 1 Shaft-L. Sinking operations were completed and the shaft is being used to hoist men and materials. Rock-holding facilities are currently being installed.

No. 1 Sub-Vertical Shaft-L. Sinking of the shaft continued from surface and was sunk 69 metres to a depth of 280 metres below the collar. The station on 27 level was excavated. The stage winder was completed and the main winder is being installed as required for the change-over to sinking from underground. Mining of the rock hold chamber was completed and the winder foundations are being installed.

On behalf of the board

M. J. Togg  
A. J. Wright } Directors

5 October 1989

## Deelkraal

Deelkraal Gold Mining Company Limited  
(Registration No. 74/00160/05)

ISSUED CAPITAL: 99 540 000 shares of 20 cents each, fully paid.

	Quarter ended 30 September 1989	Quarter ended 30 June 1989
<b>OPERATING RESULTS</b>		
Gold		
Ore milled (t)	405 000	405 000
Gold produced (kg)	2 389.5	2 429.7
Yield (g/t)	5.9	6.0
Price received (R/kg)	32 271	31 793
Revenue (R/milled)	190.87	191.00
Cost (R/t milled)	121.47	105.17
Profit (R/t milled)	69.40	85.83
Revenue (R000)	77 302	77 355
Cost (R000)	49 196	42 593
Profit (R000)	28 106	34 762
<b>FINANCIAL RESULTS (R000)</b>		
Working profit Gold	28 106	34 762
Net sundry revenue	5 257	5 053
Profit before tax and State's share of profit	33 363	39 815
Tax and State's share of profit	2 705	3 457
Profit after tax and State's share of profit	30 658	36 358
Capital expenditure	17 232	21 216
Dividend	—	49 770

INTERNATIONAL CAPITAL MARKETS

Main centres ride out interest rate storm

By Rachel Johnson in London, George Graham in Paris and Janet Bush in New York

EUROPE'S government bond markets coped reasonably well with the Bundesbank's decision to raise interest rates by a point yesterday, as the move - if not its extent - had been anticipated.

In Germany, the full point move on both Lombard and discount rates was greeted

Monday is expected to match the coupon on longer dated stocks at seven per cent.

THE UK government bond market was equally inactive until the lunchtime announcements, and the Bank of England's immediate interest rate rise of one percentage point.

GOVERNMENT BONDS

with relief, as it pre-empted further speculation about additional rises in a few months' time. Prices on bonds were marked up sharply as an immediate consequence, after a very hesitant morning's trading.

The December futures contract on Liffe jumped from 93.25 to 93.45 when the news came through, but this was followed by subsequent fairly heavy selling.

This in turn drove prices down, and the market closed at the same levels as it opened.

Investors are earmarking longer maturity bonds as attractive investments as the tightening of policy is planned to curb inflation. Shorter dated bonds tended to underperform the market, while the coupon of the new DM30n Federal 10-year bond to be launched on

the market opened unchanged on Thursday. The long end rallied half a point in anticipation of lower inflation to come, but trading was quite slow. Dealers then started - in what one of them described as a "rather perverse" reaction - to interpret the implications of 15 per cent base rates on mortgage rates and wage demands.

The benchmark 2003/07 Treasury moved up half a point to 111.24, to yield 10.11 per cent. Futures were less affected by the news, and traded in a range of about 20 basis points.

IN FRANCE, interest rates were also raised, but only by three-quarters of a point - a move deemed necessary to keep the franc stable against the D-Mark, not to tighten monetary policy.

The December contract on Matif in Paris opened at 106.80, and lost over half a point "in a second" as the news came through. Plenty of stock

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	9/82	105.50	+0.52	12.00	11.89	11.71
	9.750	1/88	94.24	+0.32	10.72	10.65	10.51
	9.000	10/89	84.30	+0.25	9.58	9.48	9.37
US TREASURY	8.000	9/89	96.05	+0.19	8.12	8.29	8.14
	6.125	9/89	100.17	+0.33	8.08	8.25	8.14
JAPAN No 111	4.800	6/88	95.8288	-0.142	5.20	5.22	5.21
	5.700	3/87	105.0588	-0.291	5.15	5.10	5.08
FRANCE	6.750	6/89	98.2600	+0.050	7.00	7.00	6.85
FRANCE BTAN	8.000	7/84	85.1848	-0.432	9.27	9.02	8.72
FRANCE OAT	8.125	9/89	95.3200	-0.140	8.85	8.72	8.44
CANADA	9.500	10/89	99.0000	+0.300	8.67	8.79	8.49
NETHERLANDS	7.250	7/89	98.9500	-0.080	7.40	7.35	7.19
AUSTRALIA	12.000	7/89	90.7384	-0.445	13.74	13.58	12.93

London closing, "denotes New York closing. Yields: Local market standard. Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

changed hands, and as the price came down to 106.04, buying interest came back and the stock started up again to close at 106.36 - and even higher in after-hours trading.

The French Government yesterday raised FF1.50bn at an auction of Treasury bonds heavily overshadowed by the imminent rise in central bank interest rates.

The Government sold FF1.70bn of its principal 10-year fixed rate bond, OAT 11.25 per cent 1999, at a cut-off price of 95.5. This gave a weighted average yield of 8.92 per cent, 37 basis points higher than at the last monthly auction.

US TREASURY bonds rallied strongly yesterday in spite of interest rate rises in Europe and no sign that the Federal Reserve is easing US monetary policy as part of a Group of Seven package designed to depress the value of the dollar.

In late trading, the Treasury's benchmark long bond was quoted a full percentage point higher to yield 8.07 per cent.

The key to the bond market's strong performance was the dollar's resilience in the face of interest rate rises abroad and repeated intervention by the US Federal Reserve.

In late New York trading, the US currency was quoted near its day's highs at DM1.8445 and ¥142.50.

The bond market started weakly in reaction to rate rises abroad which, in West Germany, were more aggressive than many had anticipated and therefore had been discounted in Treasury price levels.

The Bundesbank raised both its discount and Lombard rates by a full percentage point rather than the ½ point many had expected.

This weakness should have been compounded by disappointing news from the Fed that it was easing rates in a co-ordinated move.

Bundesbank move dampens new issue flow

By Andrew Freeman

EUROBOND markets reacted predictably to yesterday's interest rate concert in Europe. Traders reported very little secondary market turnover

over the existing 7½ per cent issue and met instant heavy demand.

The paper quickly traded within five to less 1½ bid, before rising to less 1.30 bid. Proceeds were thought to be

swapped into fixed-rate D-Marks, but the lead manager would not comment on any swap activity. Traders said the swap looked aggressive.

Syndicate officials were philosophical about the lack of

activity this week, pointing to today's US employment figures to suggest that business is unlikely to improve until world markets settle down.

Among the deals on hold will be a much-heralded \$1.5bn

jumbo issue for Italy. A formal mandate for a five-year deal has now been awarded to Morgan Stanley, and an official confirmed the issue would be launched as a fixed-price permit

when conditions permit. In Switzerland, prices of recent new issues were broadly unchanged after the ½ point rise in the discount rate to 8 per cent. The SF150m 10-year deal for CNT was still trading at around less 1½ bid.

In Germany, a brief flurry of activity followed the interest rate rise, but Eurobond prices ended the day slightly lower on balance after climbing in reaction to the Bundesbank announcement. The World Bank 6½ per cent benchmark issue ended the day 20 pips lower at 96.60 bid.

INTERNATIONAL BONDS

before news emerged from the Bundesbank, while confirmation of the rise in German interest rates dampened the new issue intentions of several borrowers.

Only the World Bank managed to bring a deal - an Ecu100m five-year issue launched very late in the day by Paribas Capital Markets. The deal offered investors a generous 15 basis point pick-up

NEW INTERNATIONAL BOND ISSUES									
Borrower	Amount	Coupon	Price	Maturity	Fees	Book runner			
World Bank (Ecu)	100	8	101½	1994	1½/1½	Paribas Capital Markets			
US DOLLARS									
Tosco Menka Finance	20	8½	101½	1993	1½/1½	Nikko Secs. (Europe)			
Tosco Motor Co. (Jap)	1.50n	8½	100	1993	2½/1½	Yamachi Int. (Europe)			
D-MARKS									
Kuratel Refractories (Jap)	100	1½	100	1994	2½/1½	Deutsche Bank			
SWISS FRANCES									
Japan Foundation Eng. (Jap)	50	¼	100	1994	1½	Nomura Bank (Switz)			
YEN									
Swedish Export Credit (Jap)	30n	6½	100	1991	1.55	Delva Europe			

\*\*Private placement. \*With equity warrants. \*Convertible. \*Final terms. \*Coupon paid by ¼% from indication. \*Coupon fixed as indicated. Yield to put 3.87% (indication 3.87%). \*Coupon cut by ¼% from indication. \*Non-callable. \* Redemption linked to Nikkei stock index.

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS									
Thursday October 5 1989									
Index	Day's Change	Est. Div. Yield (%)	Gross Div. Yield (%)	Est. P/E Ratio	Index	Day's Change	Est. Div. Yield (%)	Gross Div. Yield (%)	Est. P/E Ratio
1 CAPITAL GOODS (288)	-1.9	11.49	4.45	16.47	26.63	961.81	964.37	957.59	883.51
2 Building Materials (297)	-2.9	15.78	4.94	9.22	24.89	1157.22	1158.49	1158.49	1017.77
3 Contracting, Construction (377)	-2.9	15.78	4.94	9.22	24.89	1157.22	1158.49	1158.49	1017.77
4 Electricals (10)	-2.2	9.49	4.42	12.99	68.81	2881.34	2885.96	2799.32	2226.81
5 Electronics (30)	-2.8	9.37	3.55	13.77	49.17	2113.44	2135.31	2184.54	1715.19
6 Mechanical Engineering (54)	-1.6	11.01	4.43	11.85	14.16	516.22	519.49	516.93	419.96
7 Metals and Metal Forming (6)	-1.5	22.08	6.26	14.25	15.15	496.82	500.76	496.82	408.67
8 Motors (19)	-1.1	17.78	4.22	11.98	9.97	217.81	217.81	217.81	222.08
9 Other Industrial Materials (23)	-1.1	9.48	4.30	12.44	51.87	1742.78	1748.85	1746.48	1364.75
10 CONSUMER GROUP (184)	-1.5	8.37	3.34	14.99	25.94	1326.05	1328.25	1314.94	1073.71
11 Brewers and Distillers (23)	-0.9	8.68	3.30	14.71	25.76	1488.95	1483.55	1455.71	1118.04
12 Food Manufacturing (20)	-1.4	8.86	3.70	14.25	23.41	1173.88	1178.32	1154.48	945.88
13 Food Retailing (14)	-1.8	8.33	3.17	18.49	43.88	2492.53	2494.50	2497.08	1833.97
14 Health and Household (14)	-1.3	6.18	1.90	19.97	37.80	2354.21	2354.71	2361.40	1938.73
15 Leisure (34)	-1.4	7.71	3.37	15.89	35.69	1733.30	1744.04	1722.77	1375.82
16 Packaging & Paper (18)	-2.2	10.78	4.58	11.33	16.17	591.51	591.43	589.45	539.48
17 Publishing & Printing (18)	-1.6	8.70	4.45	14.77	185.57	3722.09	3714.79	3694.34	3336.51
18 Stores (32)	-1.8	18.54	4.36	11.32	18.54	1254.59	1254.59	1254.59	701.28
19 Textiles (14)	-1.5	10.14	5.26	11.90	15.67	518.62	518.62	518.62	518.62
20 OTHER GROUPS (93)	-1.3	10.05	4.34	12.86	26.50	1183.55	1186.16	1175.26	966.92
21 Agencies (17)	-0.4	6.74	2.31	18.25	24.48	1569.39	1567.53	1545.57	1075.51
22 Chemicals (22)	-1.7	11.95	4.99	9.86	42.58	1275.51	1281.32	1281.32	1059.81
23 Conglomerates (13)	-1.9	16.48	4.36	11.32	20.99	1461.81	1462.16	1462.16	1284.83
24 Transport (13)	-1.1	9.78	4.10	13.68	55.79	2397.78	2393.62	2346.48	1948.33
25 Telephone Networks (2)	-1.6	10.68	4.35	12.80	22.38	1152.61	1158.73	1147.87	979.69
26 Miscellaneous (26)	-1.3	8.92	4.21	12.65	44.44	1988.17	1989.44	1926.58	1219.54
27 ALL-SHARE INDEX (485)	-1.5	9.71	3.92	12.69	27.19	1288.18	1291.49	1199.55	971.45
28 Oil & Gas (15)	-1.0	9.94	5.21	13.29	86.84	2281.75	2282.21	2169.73	1751.19
29 500 SHARE INDEX (500)	-1.5	9.74	4.10	12.77	32.04	1292.28	1295.44	1281.85	1057.92
30 FINANCIAL GROUP (121)	-1.1	5.26	2.71	18.88	88.33	794.59	794.59	794.59	675.95
31 Banks (91)	-1.1	21.72	6.29	6.05	35.17	882.98	882.57	795.58	678.37
32 Insurance (11)	-1.1	5.97	2.87	12.46	46.88	1254.59	1254.59	1254.59	1012.84
33 Insurance (Composite) (7)	-1.3	5.81	2.81	12.46	24.89	659.53	659.53	659.53	534.68
34 Insurance (Brokers) (7)	-1.3	7.38	5.99	18.53	44.92	1859.36	1861.31	1814.33	1554.74
35 Merchant Banks (10)	-1.7	3.91	2.91	12.46	9.78	412.12	412.12	402.22	336.47
36 Property (49)	-1.6	6.87	3.15	18.54	26.77	1312.81	1312.81	1311.74	1229.73
37 Other Financial (31)	-1.3	11.38	4.27	11.38	13.22	356.62	356.62	354.44	284.44
38 Investment Trusts (68)	-0.7	2.73	2.73	19.94	1258.45	1258.45	1251.91	922.74	722.74
39 Mining Finance (1)	-1.1	10.78	3.88	10.43	22.78	701.86	694.16	582.83	582.83
40 Overseas Traders (8)	-0.8	9.72	5.78	11.79	43.67	1288.34	1288.34	1287.47	1288.22
41 ALL-SHARE INDEX (698)	-1.4	9.74	4.10	12.77	32.04	1292.28	1295.44	1281.85	1057.92
42 Index	Day's Change	Day's High	Day's Low	Oct 4	Oct 3	Oct 2	Oct 1	Oct 30	Oct 29
FT-SE 100 SHARE INDEX	-1.5	2281.6	2281.6	2279.3	2281.6	2281.6	2281.6	2281.6	2281.6

FIXED INTEREST									
AVERAGE GROSS REDEMPTION YIELDS									
PRICE INDICES	Thurs Oct 5	Day's change	Wed Oct 4	Oct 3	Oct 2	Oct 1	Oct 30	Oct 29	Oct 28
1 British Government	115.94	+0.01	115.93	-	9.66	9.66	9.66	9.66	9.66
2 Up to 5 years	130.49	+0.14	130.36	-	9.84	9.84	9.84	9.84	9.84
3 5-15 years	139.89	+0.20	139.62	-	11.64	11.64	11.64	11.64	11.64
4 Over 15 years	161.78	+0.02	161.73	-	8.83	8.83	8.83	8.83	8.83
5 Irredeemables	128.26	+0.10	128.12	-	10.11	10.11	10.11	10.11	10.11
6 Index-Linked	138.16	-0.13	138.34	-	2.26	2.26	2.26	2.26	2.26
7 Up to 5 years	136.43	+0.09	136.30	-	2.89	2.89	2.89	2.89	2.89
8 Over 5 years	136.44	+0.08	136.34	-	2.82	2.82	2.82	2.82	2.82
9 Inconvertibles	110.12	-0.26	110.41	-	6.26	6.26	6.26	6.26	6.26
10 Preference	88.38	-0.05	88.43	-	4.71	4.71	4.71	4.71	4.71

40 opening index 2311.7; 10 am 2308.3; 11 am 2310.6; Noon 2312.1; 1 pm 2314.1; 2 pm 2313.5; 3 pm 2277.8; 3.30 pm 2274.0; 4 pm 2279.1; 4.30 pm 2281.6. High and low record, base data, values and constituent changes are published in Saturday Index. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p. CONSTITUENT CHANGE: Fleming Technology Investment Trust (71) has been deleted.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	99	29	16
Corporations, Dominion and Foreign Bonds	12	18	5
Industrial	10	8	2
Financial and Properties	59	359	251
Oil	16	3	3
Plastics	36	1	3
Others	77	83	62
Totals	448	1,448	1,042

LONDON RECENT ISSUES

EQUITIES									
Issue Price	Par Value	Latest Price	1999		Stock	Issue Price	Par Value	Latest Price	Div. Yr.
			High	Low					
57	100	F.P.	66 1/2	56 1/2	Roberts Int. Group-100	56 1/2	100	56 1/2	0.0
100	100	F.P.	135	125	Banco Group Ltd.	125	100	125	1.25
100	100	F.P.	135	125	Bank of America Corp.	125	100	125	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
100	100	F.P.	128	108	Telecomuni Int. 100	108	100	108	0.0
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## UK COMPANY NEWS

# USH launches robust defence against hostile Meggitt bid

By Andrew Bolger

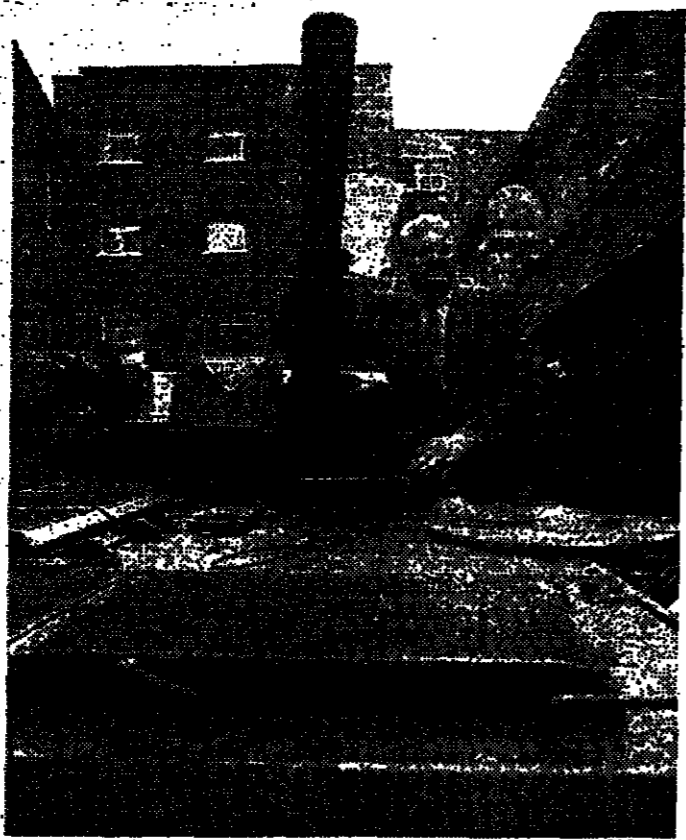
UNITED SCIENTIFIC Holdings yesterday issued a robust defence to the hostile bid launched three weeks ago for the troubled defence supplier by Meggitt, an acquisitive specialist engineering group.

Mr John Robertshaw, chairman of USH, described Meggitt's offer as "misleading, misjudged and misconceived."

He has written to shareholders: "The pathetic prices offered by Meggitt for your USH shares and its failure to present you with a full cash alternative are unimpressive in view of the recent lacklustre performance of its own share price." When Meggitt launched its bid September 11, its 130-for-100 paper offer valued each USH ordinary share at 151p and the whole group at £118m.

However, USH's shares immediately jumped to 28p to 178p. USH shares closed yesterday at 152p, down 4p. Meggitt shares closed at 105p, down 2p on the day, and a full 13p lower than their closing price on the day the bid was announced. At yesterday's price, Meggitt's paper offer values USH shares at 135.9p, and its partial cash alternative is worth 152p.

Mr Nick Prest, USH's deputy chief executive, said: "Since the announcement of the offer, the price per Meggitt ordinary share has fallen by over 14 per cent. The value of the ordinary offer is now approximately 7.5 per cent



Nick Prest, Meggitt had ignored the ability of USH's senior management and its decisive action to address problems.

below the value of USH shares immediately prior to the offer." Mr Ken Coates, Meggitt's

group managing director, said the document was woefully short of figures and in particular made no profits forecast. He said the market was tracking price offered by the partial cash alternative, which he expected most shareholders to opt for.

The defence document says there is no industrial or commercial logic in combining the two businesses. USH's main activities are electro-optics and armoured vehicles, through its Alvis subsidiary, which makes the Scorpion light tank. Meggitt is a defence contractor in its own right, supplying electronics and control systems, particularly in the aerospace sector.

Mr Prest said Meggitt had completely ignored the ability of USH's senior management and the decisive action they had taken to address problems at the Aviano electro-optical plants in Taunton, Somerset. Two disastrous contracts saw USH's pre-tax profits slide to £10m in 1987-88 and in the six months to March 31, USH fell £5.5m into the red and passed on its dividend.

USH's proposed disposal of its US subsidiary, Opto-Electronic Corporation, for \$65m (\$42m) has been criticised by Meggitt. Mr Prest said one of the main reasons for the sale was his belief that restrictions on management control by a non-US owner, deriving from the US Government's requirement for a voting trust and proxy board, posed long-term risks to shareholders' interests.

## MTS rejects Twigrealm bid

By John Riddling

MEAT TRADE Suppliers, the sausage, casing and butchers' sundries company, which is in the middle of a bid battle between Twigrealm, a newly formed company, and Alpha Gamma, a property developer, yesterday rejected the offer from Twigrealm as a "sleight of hand."

In its defence document MTS, which is recommending the proposals from Alpha Gamma, said that Twigrealm offer represented "less cash, no new assets and the possibility of an absentee landlord."

Twigrealm which is headed by Mr Freddy Hirsch, a South

African butcher's supplier and Mr Stephen Wingate, a property developer, is offering 350p cash for every MTS share, valuing the company at £9.18m.

Alpha Gamma is offering 372p for two out of every five MTS shares, with MTS to pay simultaneously £12.55m to acquire Alpha Gamma.

MTS argues that the Alpha Gamma proposals are worth £3.51 per share as compared with Twigrealm's £3.14. In addition, it says that the Alpha Gamma proposals add greater asset value to shareholders.

Twigrealm said that MTS' criticisms were "incorrect in a number of respects. It said that the financial comparisons were misleading because it was offering cash for all of the shares as opposed to Alpha Gamma's partial offer."

In addition, it claims that MTS' asset value calculations are misleading because they are based on an initial assumption of "existing use" valuations of property rather than their likely value.

Twigrealm also rejects as incorrect the statement from MTS that it will close its offer once 50 per cent acceptances have been received.

## Axa Midi bound by new agreement

By Jane Fuller

Axa Midi, the French insurance company, is now unconditionally bound to acquire Farmers Group should Hoylake succeed in its attempt to take over BAT Industries.

As a result of an agreement signed by Sir James Goldsmith's consortium and Axa Midi yesterday, any new Hoylake offer for BAT will say that Axa Midi's agreement to acquire the US insurance company is unconditional.

## Sharp & Law share deals halted

By Andrew Hill

DEALINGS IN the shares of Sharp & Law, the troubled USM-quoted shopfitter, have been suspended temporarily "pending clarification of the company's financial position".

In the past nine months, the group has suffered from high borrowings and escalating interest rates, issuing two profits warnings within a month. Sharp also put three subsidiaries up for sale in an attempt to reduce gearing which some put at around 500 per cent.

Sharp was also forced to restate its 1987 accounts because of "material accounting errors", which also hit 1988 profits.

Yesterday's announcement followed hard on the heels of a further increase in interest rates to 15 per cent. Sharp & Law was unavailable to comment on the suspension.

The suspension price of 42p is a fraction of the peak share price of 248p just before the stock market crash two years ago.

## Disposal of peripheral businesses continues Thirsty Japanese lift spirits as Guinness advances to £246m

By Andrew Bolger

GROWING demand for whisky in the Far East spells good cheer for Guinness, which yesterday reported pre-tax profits up 24 per cent to £246m in the half-year to June 30.

Mr Anthony Tennant, chairman, said: "United Distillers, our spirits company, has continued to improve its performance. Our business in Japan is developing well as a result of setting up our own distribution organisation. Performance has also been strong in other Asian/Pacific markets."

The £55m which the Takeover Panel ordered Guinness to pay to former shareholders in the Scotch Whisky company Distillers has been taken as an extraordinary item. The settlement arises out of a breach of the Takeover Code during Guinness's £2.7m bid for Distillers in 1988.

By taking the pay-out below the line, Guinness protects its earnings per share figures, but the profit attributable to share-

holders is reduced to £59m (£111m) by the extraordinary item.

Earnings were up 29 per cent to 16.5p (13.1p). An interim dividend of 4.4p (3.5p) was declared, an increase of 26 per cent.

Moët Hennessy-Louis Vuitton (LVMH), the French champagne and luxury products group, contributed £30m to Guinness's pre-tax profits. This half year is the first to have a contribution for the full period from LVMH, in which Guinness has a 24 per cent stake.

North American results were adversely affected by the weak market and Guinness's reorganisation of its businesses in

the US. Nevertheless its four major brands there all marginally gained market share.

In Britain, Mr Tennant said canned draught Guinness had achieved full national distribution in the take-home trade and sales were encouraging. Kaliber was the number one alcohol-free lager and was now being introduced on draught and in cans.

Guinness continued to dispose of peripheral businesses with the sale of Cranks, Sonoma Vineyards, Dreyfus Ashby, a wine merchant, certain companies acquired with Buckleys Brewery and its 50 per cent stake in United Glass. The company extended its distribution network by acquiring Süssenthaler in Switzerland and making investments in Blandy's in Portugal and B Daly in the Irish republic.

Mr Tennant said: "We have agreed arrangements to distribute Bacardi throughout Asia/Pacific and Martini in south-east Asia and Australia."

## In perfect shape and ready for market

Clare Pearson looks at the Hays group in the run up to its flotation

AMONG things bothering Mr Ronnie Frost, chairman of Hays, the UK business services group, are press reports focusing on the company's £254m management buy-out from the Kuwait Investment Office two years ago.

In the view of Mr Frost, this perspective cruelly disguises the years of painstaking preparation and construction culminating in Hays' offer for sale of £170m-£180m worth of shares later this month, marking one of the biggest non-privatisation issues in recent years. The shares are to be priced next Wednesday to give the group a market value of around £400m to £450m.

"Some management buy-outs are prepared in four weeks. I had been at it for four years, and firmly believe the group is now in just about perfect shape," he says.

To sum up the nature of the group, he drums out - doubtless for the umpteenth time in recent weeks - the watchwords: "Business to business services." More than that, he is keen for people to recognise that Hays are not any old services. They are in the main non-discretionary, essential services, and have to be done by specialists.

Nevertheless, the crucial question is whether investors will take a similar view of the quality and coherence of the group's businesses. These certainly appear to range across such a wide spread of activities that even the effort involved in having to look at each of them may present a barrier to stock market popularity.

With interests spanning staff agencies, distribution and office services, Hays is having to be assigned to the conglomerates sector - a position with which it is not best-pleased.

Mr Frost continually laments the absence of a services sector, where he believes the quality of Hays' operations would be more readily apparent. For instance, he points out profitability per employee in the past financial year was about £10,000.

The company as it is now composed looks like this: in the year to June 30 1988, to operating profits of £52.7m (30 per cent up) personnel returned £19.4m (£15.6m), dis-

tribution £23.7m (£17.9m), and office support services £9.8m (£5.9m).

Much the biggest component of the personnel division is Accountancy Personnel, UK market leader in the field with 30 offices around the country. There is also Montrose, an agency supplying technical and professional applicants to the construction industries, and a number of smaller operations including Success after Sixty, which helps older people find work.

The commercial division, albeit the smallest, comprises what many see as the jewel of the group: Britdoc, a unique and fast-growing business mail service involving a network of document exchanges. In addition, there is Hays Business Services, an archive storer, Data Express, an overnight parcels deliverer specialising in fragile items, and Rentacrate.

The main component of the distribution division is chemicals distribution, accounting for £14.1m of its operating profits in the year just gone, and split into bulk, packaged, and speciality operations. It also carries out third party warehousing and distribution for the food retailers, Waitrose and Tesco, and there are smaller operations involved in the storage and distribution of shopfit-

tings, and home delivery of white goods.

There are certainly some areas that look to have good growth prospects within the businesses. Britdoc, for instance, has increased its membership from 6,900 in 1985 to 16,000 in 1988, while the spend per member has also shot up. Given continued distillation with the Post Office, this service, which is between half and two-thirds as expensive, should continue to grow in popularity.

On the personnel side, the group argues cogently for the growing trend for companies to contract out to agencies the recruitment of both permanent and temporary staff. Although one might expect the rapid internal growth achieved by Accountancy Personnel to plateau at some point, Montrose, which is little involved with the housebuilders, could have far to go.

Hays' staff agency side is also attractively organised in that it eschews the High Street, choosing instead to operate from spartan office space. It devotes spending to classified advertising - which is easy to pull in difficult times.

Nevertheless, not all of the group presents so rosy a picture. Within chemicals distribution, the biggest component,

results for bulk products is expected to show "at best" a modest increase over those for 1988/89 due to the closure of a major customer's plant, according to the pathfinder prospectus.

A move to regional distribution by Marks and Spencer is expected to mean Hays' warehousing and delivery of garments for this company will be phased out by the end of 1990. Although in August 1988 Hays opened a new composite depot for Tesco, we do not know how intense the bidding for this contract may have been.

Mr Frost talks about the wealth of contracts that would become available were the troubled DIY companies to switch to contracting out distribution, but we have yet to see this occur.

Nevertheless, no one who has looked at the group is arguing that it does not appear to be solid. In an uncertain economic environment, it can argue convincingly for being less vulnerable to recession than some other service companies.

The simple scarcity of alternative sizeable new issues, aside from privatisation issues, on the horizon may endear it to institutions.

Nevertheless, there is a clear risk that the pricing may prove too tight. The multiples being envisaged - a historic p/e of 13½ to 14, and prospective of 11½ to 12 - are seen as acceptable in current market conditions. But they are not regarded as generous and people wonder what rate of growth Hays, which has advanced rapidly in recent years, is likely to achieve in the future.

## Kleinwort Benson

### PRIVATISATION OF SHORT BROTHERS PLC

"One of the more difficult jobs of this year - and probably next"

The Evening Standard, 16th November 1988

The sale of Short Brothers PLC to Bombardier Inc. was completed on 4th October 1989.

Kleinwort Benson acted as financial adviser to Her Majesty's Government on this privatisation.

Kleinwort Benson brings to all its clients the skill to solve difficult problems

The Kleinwort Benson Group

Issued by Kleinwort Benson Limited, A member of TSA and of the AIBD.



### OFFERS ON BEHALF OF AMP (UK) PLC TO ACQUIRE ORDINARY AND PREFERENCE SHARES IN PEARL GROUP PLC

Morgan Grenfell & Co. Limited ("Morgan Grenfell") announce on behalf of AMP (UK) PLC ("AMP UK"), a company wholly owned by Australian Mutual Provident Society ("AMP"), that, by means of a formal document dated 6th October, 1989 (the "Offer Document") to be despatched to Pearl Group PLC ("Pearl") shareholders today, Morgan Grenfell is making an offer on behalf of AMP UK to acquire the issued ordinary shares of Pearl not already owned by the AMP Group (the "Ordinary Offer") and all the issued preference shares of Pearl (the "Preference Offer") (together the "Offers"). Terms defined in the Offer Document have the same meanings in this advertisement.

The Ordinary Offer comprises, for each Pearl ordinary share, 605p in cash and the Preference Offer comprises, for each Pearl preference share, 140p in cash. As an alternative to all or part of the cash consideration receivable under the Ordinary Offer, accepting Pearl shareholders will be able to elect to receive an equivalent nominal amount of AMP UK Loan Notes in lieu of every £1 of cash under the Ordinary Offer. The full terms and conditions of the Offers and of the Loan Note Alternative are set out in the Offer Document.

The Offers are not being made directly or indirectly in the U.S.A., or by use of, the United States mails or by any means or instrumentality (including, without limitation, the post, facsimile transmission, telex and telephone) of United States interstate or foreign commerce, or any facilities of a United States national securities exchange. Persons wishing to accept the Offers must not use such mails or any such means or instrumentality for any purpose directly or indirectly related to acceptance of the Offers. The AMP UK Loan Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and accordingly will not be directly or indirectly offered, sold or delivered in the U.S.A. or to or for the account of or benefit of any U.S. persons (for the purposes of the Offer Document and this advertisement "U.S.A.", "U.S. persons" and "United States" include Canada and Canadians).

Subject to the despatch of the Offer Document, the Offers will be capable of acceptance from and after 9.00 a.m. on 6th October, 1989. Subject to such despatch and with effect from that time, the Offers are by means of this advertisement extended to all persons to whom the Offer Document may not be despatched who hold, or who are entitled to have allotted or issued to them, Pearl shares. Such persons are informed that copies of the Offer Document and Forms of Acceptance will be available for collection from Morgan Grenfell & Co. Limited, New Issue Department, 72 London Wall, London EC2.

This advertisement is published on behalf of AMP UK and has been approved by Morgan Grenfell for the purposes of section 57 of the Financial Services Act 1986. Morgan Grenfell is a member of The Securities Association.

To the best of the knowledge and belief of the Directors of AMP UK (having taken all reasonable care to ensure that such is the case), the information contained in this advertisement is in accordance with the facts. The Directors of AMP UK accept responsibility accordingly.

6th October, 1989

**DBSBANK**  
THE DEVELOPMENT BANK OF SINGAPORE LTD  
(Incorporated with Limited Liability in the Republic of Singapore)

**NOTICE OF REDEMPTION**  
**US\$100,000,000**  
**4 per cent. Subordinated**  
**Convertible Bonds Due 2001**

To: All Bondholders

NOTICE IS HEREBY GIVEN that The Development Bank of Singapore Ltd will, pursuant to the Trust Deed dated 17 December 1986 entered into between it and The Standard Chartered Bank Trustee Singapore Limited and Condition 5(2) endorsed on the Bond Certificate, redeem all of the outstanding US\$100,000,000 4% Subordinated Convertible Bonds Due 2001 on 6 November 1989.

On 6 November 1989, 100% of the principal amount of the outstanding Bonds (equivalent to US\$1,000 for every US\$1,000 principal amount) together with accrued interest thereon shall become due and payable. The Bonds shall cease to be convertible on 4 November 1989. Interest on the Bonds shall cease to accrue to Bondholders on 6 November 1989.

Payments will be made to Bondholders on 6 November 1989 and at any time thereafter within the prescription period, as stated in Condition 8 endorsed on the Bond Certificate, upon presentation and surrender of the Bonds together with all unexercised Coupons appertaining thereto at the office of any of the Paying Agents as hereunder specified:-

**Singapore**  
The Development Bank of Singapore Ltd  
DBS Building  
6 Shenton Way  
Singapore 0106

**London**  
Standard Chartered Bank PLC  
37 Gracechurch Street  
London EC3V 0BX  
United Kingdom

**Hong Kong**  
Standard Chartered Bank  
8th Floor, Edinburgh Tower,  
Central  
Hong Kong

**Luxembourg**  
Banque Internationale à Luxembourg S.A.  
2 Boulevard Royal  
L-2953 Luxembourg  
boite postale 2205

From: THE DEVELOPMENT BANK OF SINGAPORE LTD  
DBS Building  
6 Shenton Way  
Singapore 0106

6 October 1989

## UK COMPANY NEWS

### Etam bucks trend with midway rise to £6.27m

By Maggie Urry

ETAM, the clothing retailer, has bucked the trend among fashion store groups by reporting interim profits up 2.4 per cent from £6.12m to £6.27m at the pre-tax level. Excluding other income, mainly property profits, from the comparable results, profits were 10.3 per cent ahead.

The shares, which rose 14p on Wednesday, fell back by 13p to 193p yesterday, partly unsettled by the market.

Mr Alan Howard, chairman, said trading conditions had improved in the 26-week period to August 12, and the hot weather had, on balance, helped sales. So far in the second half, the continued warm weather had dampened sales of autumn ranges and trading was slightly below budget.

with volume in existing stores holding steady.

Mr Miles Drake, finance director, said the group's customers had been hit less by increased mortgage rates than those of other retailers might be, since many were teenagers or in their early twenties.

Sales rose by 32 per cent to £84.26m (£63.76m), with volume growth of about 4 or 5 per cent in existing stores. Seventeen new shops were opened in the first half and a further 20 will open in the second.

Mr Drake said the Sash and Peter Brown chains, for women and men respectively, which were acquired in 1987, were in better shape. The Sash chain is being expanded, with 50 stores expected to open by the financial year end and plans to double that number rapidly.

Merchandise changes in Peter Brown resulted in sharply higher sales, Mr Drake said.

Trading margins had been reduced - from 9 per cent to 7.5 per cent - mainly because depreciation rose following heavy capital expenditure last year. The depreciation charge was £4.2m (£2.4m).

In the current year, capital expenditure was likely to total £27.5m, Mr Drake said, with £5.8m spent on an extension to the warehouse. Year-end net cash was likely to be £3m or more. Net interest receivable in the first half fell from £1.3m to £755,000.

Earnings per share were marginally up at 8.22p (8.21p) and the interim dividend is being lifted to 1.95p (1.7p).

### James Finlay improvement to £4.9m

HIGHER PROFITS in banking and plantations and lower losses in its energy interests helped James Finlay increase interim pre-tax profits from £4.5m to £4.9m.

Banking services, finance and international confirming reported profits for the first half of 1989 of £1.36m (£822,000). Plantations rose to £1.96m (£1.57m).

Energy related interests incurred a loss of £946,000 (£1.54m). Since the end of the period, Seaford Maritime has been sold to Taylor Woodrow and the UK gas and oil interests to Kelt Energy.

Directors said the North American oil and gas side had shown limited improvement.

The tea market was much better than at the time of the annual meeting and the improved prices were expected to be maintained until at least the end of the year.

Turnover was £90.04m (£81.63m) and earnings per share came out at 2.9p (2.8p). The interim dividend is unchanged at 3p.

### TV groups show profits progress TSW limited to 6% advance at £3.18m

By John Riddling

AN INCREASE in its exchange levy payments and exceptional costs relating to rationalisation measures limited Television South West, ITV contractor for the south west of England, to pre-tax profits of £3.18m for the year to the end of July, an increase of 6 per cent.

Group turnover increased from £36m to £42.41m, largely reflecting a 15 per cent increase in advertising revenues from £34.46m to £39.49m. Programme sales improved strongly from £260,000 to £1.91m.

As a result, trading profits increased by 68 per cent to £5.83m.

Against this, the levy bill almost doubled - from £1.06m to £2.13m - and there were exceptional items comprising a £2.25m payment relating to voluntary and compulsory redundancies and a £470,000 first time payment to the employee incentive trust.

Sir Brian Riley, chairman, said that the growth in adver-

tising revenues and programme sales had "resulted in excellent profits and permitted us to absorb the full amount of the reorganisation costs and incentive trust scheme".

The incentive trust is aimed at securing commitment from key personnel who are needed in the company's attempt to retain its franchise after 1992 but who may be attracted by satellite broadcasters, rival terrestrial broadcasters or independent production companies.

In line with the other ITV contractors, TSW is attempting to increase operating efficiency ahead of the newly competitive process of franchise allocation.

Sir Brian estimates that staff numbers are forecast to drop by almost 20 per cent under its rationalisation programme. Earnings per share edged ahead from 8.43p to 8.54p. There is a final dividend of 3p (2.85p) giving a total for the year of 4.15p (3.15p).

### Ulster cautious on growth after 15% rise

ULSTER Television, the ITV contractor for Northern Ireland, yesterday announced pre-tax profits of £2.61m for the year to the end of July, an increase of 19.5 per cent on the comparable period, writes John Riddling.

Group turnover increased from £22.21m to £26.57m with all but £2.2m coming from advertising revenues. Earnings per share rose from 13.61p to 16.43p.

Mr Brum Henderson, chairman, said that "we continue to reduce costs through improved efficiency and greater automation, but despite this the slowdown in industry advertising revenue means that we are cautious as to whether the 15 per cent growth achieved in the 12 months to the end of July can be sustained."

During the period, the group's investment income increased by 75 per cent to £588,000. This came about from higher interest rates and the

improved cash flow which resulted from the £1.6m received by the company in June as a result of its share of the sale of Independent Television Publications to Reed International.

With respect to the broadcasting bill, which is shortly to be introduced to Parliament, Mr Henderson said: "While we agree with much of what is proposed there are several major provisions which would be injurious to our company."

These include the proposal to auction future ITV franchises to the highest financial bidder and the proposed separation of Channel 4 from ITV.

The company is changing its year-end from July 31 to December 31 and these figures therefore represent a second interim period. The second interim dividend of 3.5p compares with last year's final payment of 2.75p. The total for the twelve months reported is 6p (4.76p).

### Crown Communications adds to Invicta stake

By John Riddling

CROWN COMMUNICATIONS, the broadcasting group, has further increased its investments in independent local radio companies by buying a further 4.6 per cent of Invicta Radio.

The stake, acquired from Adscene, the publishing and printing group, takes Crown's holding in Invicta to 15 per cent. It paid £280,000 for yesterday's 400,000 shares.

Crown holds stakes in 12 commercial radio companies, as well as owning 100 per cent of LBC, the London talk station.

LBC gives Crown a potential audience coverage of more than 15 per cent of the UK adult population, the limit of ownership under current IBA regulations.

However, under a secondary ceiling, Crown is permitted to take stakes of up to 30 per cent in companies - providing that they do not exceed 15 per cent of the potential audience.

Mr Nigel Reeve, managing director of Invicta, said he was pleased that Crown was showing its confidence in Invicta by further investment.

### Betterware rises 52% to £1.13m

BETTERWARE Consumer Products, the USM-quoted household goods group, lifted pre-tax profits by 52 per cent from £740,000 to £1.13m in the 26 weeks ended September 8. Turnover advanced from £5.59m to £10.28m.

Mr Andrew Cohen, managing director, reported that there was considerable scope for the group as it was now reaching under 50 per cent of

consumers in the UK. In addition the group was looking to export the Betterware concept and products to the continent.

After tax of £394,000 (£259,000) earnings worked through at 7.31p (4.81p). An interim dividend of 2.15p (1.8p) is being paid. There was an extraordinary credit of £488,000 (£1.62m) relating to the sale of the Crayonne products range in July.

# GUINNESS PLC

## THE HALF-TERM REPORT

Guinness PLC announces increased Group profit for the six months ended 30th June 1989.

	1989	1988	%
Profit before tax	£246m	£183m	+34%
Earnings per share	179p	13.5p	+33%
Net dividend	4.4p	3.5p	+26%

These figures reflect our growth both at home and internationally, based firmly upon investment in high quality brands.

Our list of international best-sellers is extensive and includes Johnnie Walker Scotch and Gordon's Gin. In the USA and the UK - the world's two biggest Scotch whisky markets - Dewar's and Bell's respectively are brand leaders.

Alongside this our operational distilleries are working full-time for the first time in eight years. Over the next three years we plan to invest £100 million in production facilities.

Worldwide, sales of Guinness stout and our other beer brands continue to advance against increasing competition.

The link-up with LVMH Moët Hennessy Louis Vuitton strengthens our interest in some of the world's most famous names including Dom Perignon, Moët et Chandon, Hennessy cognac, Christian Dior and the Louis Vuitton range.

All of which combines to reinforce our commitment to building premium brands internationally.

# GUINNESS PLC

39 PORTMAN SQUARE, LONDON W1H 9HB

The contents of this advertisement, for which the Directors are solely responsible, have been approved for the purposes of Section 57 of the Financial Services Act 1986 by Price Waterhouse as authorised persons.

### CONSOLIDATED GOLD FIELDS PLC

Notice to non-resident shareholders

Pursuant to section 69(1)(a) of the Companies Act 1985 as amended by Schedule 18 to the Financial Services Act 1986

# 430A

A dividend offer (the "Offer") has been made by 11 Gold Fields Ltd (the "Offeror") to holders of 11 Gold Fields Ltd shares (the "Shares") who are entitled to receive a dividend of 430A pence per Share. The Offer is open for acceptance until 11.59pm on 11th October 1989. The Offer is subject to the Offeror's satisfaction that the necessary conditions for the Offer have been met.

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## UK COMPANY NEWS



David Jones: Mail order at a crossroads - smaller, targeted catalogues probably needed

## Next profits hit by costs of high street retailing

By Maggie Urry

DETAILS OF Next's interim profit slide from £30.5m to £16.2m announced yesterday show the sharpest fall came from the high street retail division. Operating profits for the six months to July were 65 per cent lower, at £3.8m, on sales up 2.7 per cent at £142.2m.

The essential problem was the rise in retail space of 17.6 per cent, meaning that sales per square foot were substantially lower, while costs continued to rise.

Mr David Jones, chief executive, said that as well as tough trading conditions, the shops suffered from a number of problems within the group's control.

The merchandise ranges in the womenswear shops had been disrupted as the Next Two ranges had been ordered before the decision to close that format. Those clothes did not produce a cohesive range in the other Next shops.

On the menswear ranges, Mr Jones said the team of buyers for the shops also bought for the Next Directory catalogue and had been overstretched.

The rationalisation plan for the shops would cut out stores which were unprofitable. Those were mainly below or above a size range between 2,000 and 4,500 sq ft. The larger stores, about 15, had lost the

group "many millions of pounds". Most of them could be reduced in size without losing sales, he thought, while a few would be closed.

In home shopping the operating profits fall was less severe, at 35 per cent to £8.9m, but analysts said that in a way that was more disappointing as a bounce back from last year's postal strike had been hoped for.

An extra 12m of marketing costs had been incurred in the hope of boosting sales. Sales were up 9 per cent at £29.1m, although within that agency sales rose only 3.5 per cent to £11.7m.

Mr Jones said mail order was now at a crossroads, with sales per agent not increasing but costs of recruiting agents high. A move to smaller catalogues more carefully targeted at customers was needed, he thought.

Next Directory, the more up-market direct mail catalogue, saw sales rise by 49 per cent to £31.2m and made a £300,000 operating profit.

Financial services profits fell from £4.3m to £2.1m and operating profits rose from £5.6m to £5.8m. Discontinued businesses - the Dillons and Preedy chains and the Mercade carpets business which have been sold, and the Next Jewellery chain which is to be bought by

## Ivory &amp; Sime trust for new PEP rules

By Jane Fuller

A NEW investment trust has been launched by Ivory & Sime to take advantage of a loophole in personal equity plan (PEP) regulations.

L&S Optimum Income Trust gets round the rule which says that only half of the permitted PEP maximum of £4,800 per person can be put in an investment or unit trust.

A concession in the Budget allows shares in a new issue, up to the maximum, to be transferred into a PEP within 30 days of the allocation date.

The new trust is the second of its kind - River & Mercantile launched a fortnight ago - but at £87.5m is considerably larger.

Also a greater proportion of the ordinary shares, £25.2m, will be available to the public.

The estimated initial yield is 8.5 per cent. This will be achieved through splitting the £87.5m capital between £42.5m of ordinary shares and £45m of zero preference shares.

These have a guaranteed redemption value, in 7½ years' time, equivalent to 13.49 per cent a year.

The other £17.3m of ordinary stock has been pre-placed by S. G. Warburg Securities.

## Photo-Me International continues growth to £15.23m

PHOTO-ME International, the photographic booth manufacturer and operator, continued to progress through the second six months and for the full year to end-April saw its profits rise from £11.95m to £15.23m at the pre-tax level.

Turnover improved by 23 per cent to £94.47m and from earnings per share 8.62p ahead at 28.34p shareholders are to receive a doubled dividend of 6p via a final of 4.8p.

The directors said yesterday that growth in shareholders' funds to £32.2m (£24.9m) had further improved the group's liquid position. Photo-Me was well placed to take investment opportunities or make suitable acquisitions as they arose.

They pointed out that the company was committed to an

expansion policy with high investment in equipment. In the past 12 months Photo-Me has invested more than £11m in revenue-producing equipment, with existing operations being upgraded and new subsidiaries started up.

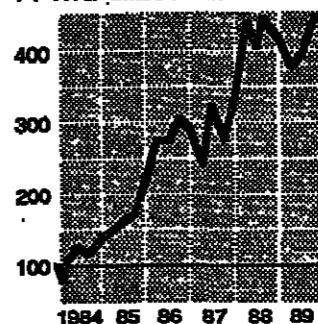
The company was continuing to monitor technological advances and shareholders were told that steady growth of the ID division had been achieved with the introduction of the Digicard system.

At the annual meeting, called for December 12, the directors will propose a sub-division of the 5p shares into 2½p units. They said this should further assist marketability.

As previously announced, Mr Terence Chute has succeeded Mr Dan David as chair-

## Photo Me

Share price relative to the FT-A All-Share Index



man and Mr David Miller has become managing director. Mr David will continue with his overseas responsibilities.

## Morgan Grenfell acts to quell rumours

By David Lascelles, Banking Editor

MORGAN GRENFELL, the City of London merchant banking group, issued a statement last night saying that "no discussions with any third party are in progress."

The statement followed several days of intense speculation in the group's shares, culminating in a sharp rise early yesterday. In particular, there

were rumours that Willis Faber, the insurance broking company which owns 21 per cent of Morgan's stock, had sold its shares to another bank.

Willis Faber denied that it had sold the shares. A spokesman restated the position that it would consider offers at an acceptable price. But no such offers had been made.

Willis has always said that it would not sell its stake without Morgan's prior approval.

Morgan's statement sent its share price plummeting. From a day's high of 409p, it reached 362p in after hours trading, down 7p on the day.

Despite yesterday's denials, several analysts believe that a deal might be imminent.

## Abtrust plans to raise £18.9m via placing

By Andrew Hill

ABTRUST New Dawn Investment Trust, which specialises in the developing markets of the Far East, plans to raise £18.9m with a placing and offer to shareholders, just five months after its main market debut via a £15m placing.

Mr Hugh Young, a director of Abtrust, said the number of cash calls and rights issues in the Far Eastern markets had drained initial resources.

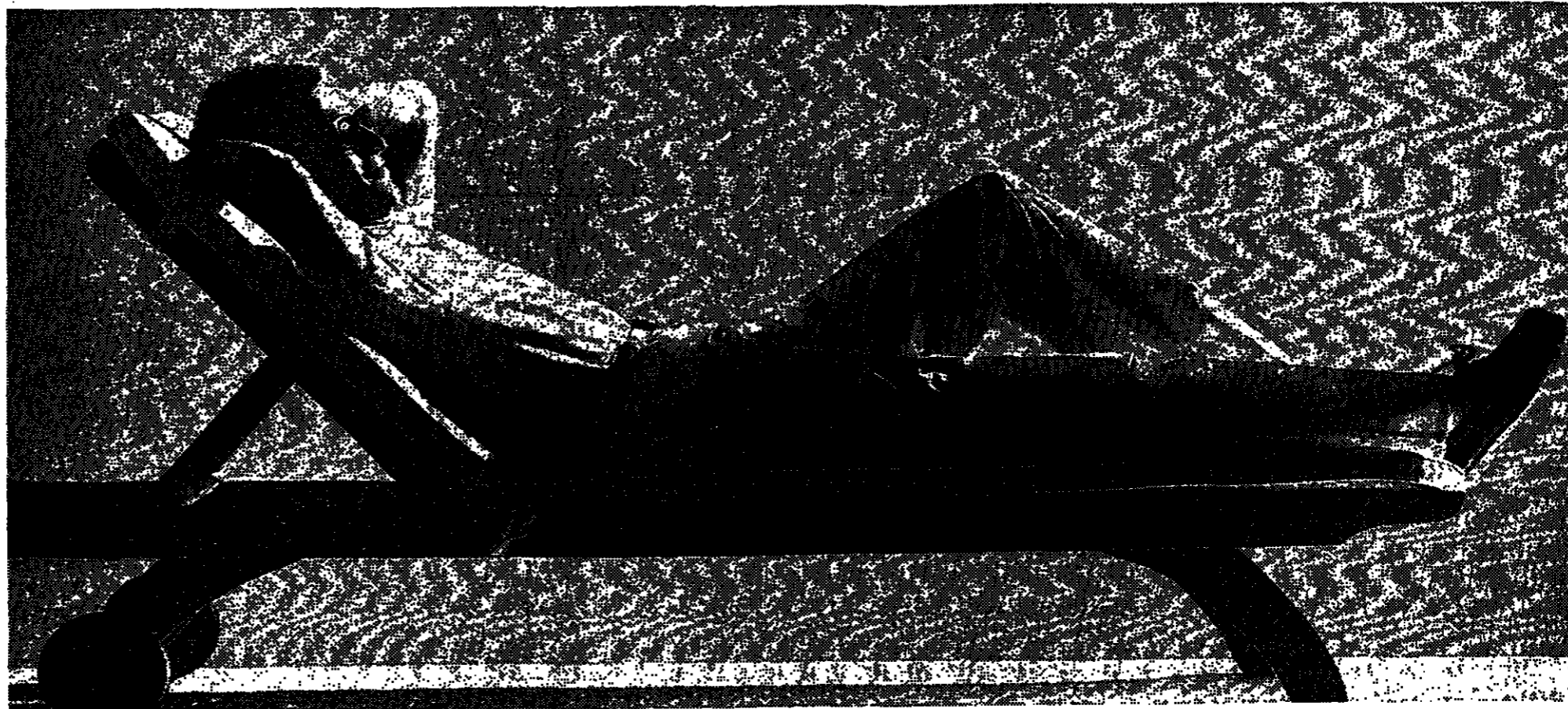
Some 15m new ordinary shares and up to 3m warrants have been conditionally placed with institutions, and will be offered to shareholders at 128p each on the basis of one new ordinary share for each share held. That compares with yesterday's closing price of 137p, down 3p.

Subscribers to the offer will also receive one series B warrant with every five new ordinary shares subscribed. Each series B warrant carries the right to subscribe for one share at 135p in any of the years from 1991 to 1995.

Mr Young said the investment trust, which has seen its undiluted net asset value rise from 97.8p in May to nearly 130p at the end of September, needed the flexibility to exploit new investment opportunities.

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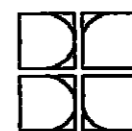
And it is particularly evident in our approach to investment research, which is prepared specifically for our private clients, but which is of a depth more commonly found with leading institutional fund managers.

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## SeaCon alternatives 'ready soon'

Mr Jim Sherwood, president of Sea Containers, has said that the container and ferry group would announce its alternatives to the hostile Tinkoff, Stena and other bidders within a month.

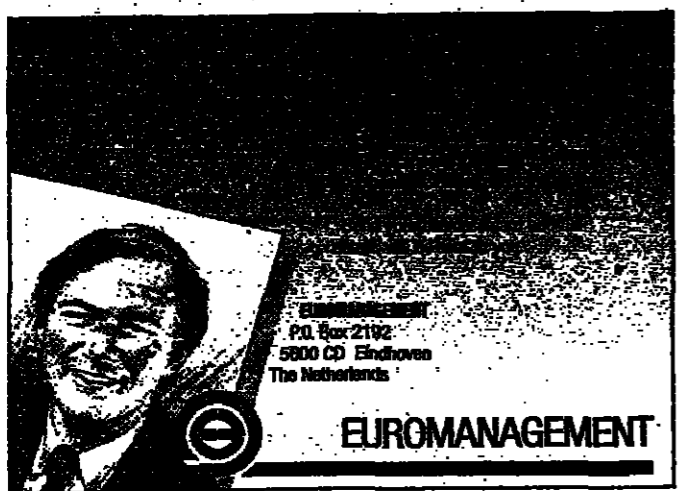
He said the alternatives would involve significant asset sales, would be announced irrespective of the outcome of the long-running legal action surrounding the bid.

Stena, a private Swedish ferry operator, and Tinkoff, a UK container rental company, are bidding for Sea Containers, which has a market value of £1.12bn.

## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Assoc Fisheries Int	1.1	Nov 6	1.1	6	5.5
Bethersay Int	2.15	Nov 6	1.8	20	20
Camellia Invest Int	9	Nov 6	8	7.4	6.2
Druck Holdings Int	4.9	Nov 20	1.7	4.6	4.6
Elm Int	1.85	Jan 3	1.2	4.15	4.15
Finlay (James) Int	2	Jan 3	2.5	3.9	3.2
Gatfield Int	3.05p	Nov 24	3.5	11.5	11.5
Guinness Int	4.4	Nov 14	3.5	4.75	4.75
Lap Group Int	1.75	-	1.45	3.375	5.075
Microfilm Repro Int	3.375	-	2.25	7.4	7.4
Next Int	2.7	-	2.4	9	8
Photo-Me Int	4.8	Dec 13	1.125	4.125	2.57
Quarto Int	1.5	Nov 24	0.68	12.3	12
Scott Amer Inv Co Int	0.25	Jan 5	0.5	4.15	3.15
Strong & Fisher Int	8.5	Nov 30	2.25	6	4.75
TSW TV Int	3	-	2.75	6	4.75
Uster TV Int	3.5	-	2.75	6	4.75

Dividends shown pence per share not except where otherwise stated. Equivalent after allowing for scrip issues. \*On capital increased by rights and/or acquisition issues. SLSM stock. SLSM stock. SLSM stock.

NEVI  
A/S NEVI

DKK 600,000,000 Floating Rate Notes due 1993  
Tranche A of DKK 300,000,000

In accordance with the provisions of the Notes, notice is hereby given that, for the three months period, 6th October, 1989 to 8th January, 1990, the Notes will bear interest at the rate of 10.4375 per cent. per annum. Coupon No. 13 will therefore be payable on 8th January, 1990 at DKK 2725.35 per coupon for Notes of DKK 100,000 nominal.

Agent Bank

KANSALLIS-OSAKE-PANKKI  
London Branch

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares. The Offer is made solely by the Offer to Purchase dated October 4, 1989 and the related Letter of Transmittal and is being made to all holders of Shares. The Purchaser is not aware of any State where the making of the Offer is prohibited by administrative or judicial action. Pursuant to a state statute, if the Purchaser becomes aware of a State where the making of the Offer is prohibited, the Purchaser will make a good faith effort to comply with any such statute. If after such good faith effort, the Purchaser cannot comply with any such statute, the Offer will not be made nor will tenders be accepted from or on behalf of the holders of Shares in such State. Where the securities, blue sky or other laws of any jurisdiction require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of the Purchaser by The Blackstone Group L.P. or one or more registered brokers or dealers licensed under the laws of such jurisdiction.

**Notice of Offer to Purchase for Cash**  
**All Outstanding Shares of Common Stock**

**The Guber-Peters Entertainment Company**

**\$17.50 Net Per Share**

**GPEC Acquisition Corp.,**

a Wholly Owned Subsidiary

**Sony USA Inc.**

GPEC Acquisition Corp., a Delaware corporation (the "Purchaser") and a wholly owned subsidiary of Sony USA Inc., a New York corporation (the "Parent"), hereby offers to purchase all outstanding shares of common stock, par value \$0.01 per share (the "Shares"), of The Guber-Peters Entertainment Company, a Delaware corporation (the "Company"), at \$17.50 per Share, net to the seller in cash and without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 4, 1989 (the "Offer to Purchase") and in the related Letter of Transmittal (which together constitute the "Offer").

**THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, NOVEMBER 6, 1989, UNLESS THE OFFER IS EXTENDED.**

The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the expiration of the Offer that number of Shares which, together with the Shares beneficially owned by the Parent and its affiliates, represents at least a majority of the Shares outstanding on a fully diluted basis. The Offer is also subject to modification of certain agreements of the Company on terms satisfactory in form and substance to the Parent in its sole discretion.

The purpose of the Offer is for the Parent to acquire control of, and the entire equity interest in, the Company. The Offer is being made pursuant to an Agreement and Plan of Merger dated as of September 27, 1989 (the "Merger Agreement") by and among the Purchaser, the Parent, and the Company. The Merger Agreement provides, among other things, for the merger of the Purchaser with the Company (the "Merger") pursuant to which each outstanding Share (other than Shares held directly or indirectly by the Parent or the Company and Shares held by stockholders who perfect their appraisal rights under the Delaware General Corporation Law (the "DGCL")) will be converted into and represent the right to receive \$17.50 or such higher price per Share as shall have been paid pursuant to the Offer, without interest thereon, upon surrender of the certificate evidencing such Share.

The Board of Directors of the Company has unanimously determined that each of the Offer and the Merger is fair to and in the best interests of the Company's stockholders, has approved the Offer and recommends that the Company's stockholders accept the Offer and tender their Shares.

The Purchaser reserves the right, in its sole discretion, at any time or from time to time, to extend the period of time during which the Offer is open by giving oral or written notice of such extension to the Depository followed as promptly as practicable by public announcement thereof not later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date of the Offer.

Upon the terms and subject to the conditions of the Offer, the Purchaser will be deemed to have accepted for payment and thereby purchased tendered Shares, if, as and when the Purchaser gives oral or written notice to the Depository of its acceptance of such Shares for payment pursuant to the Offer. In all cases, payment for Shares purchased pursuant to the Offer will be made through the Depository, which will act as agent for tendering stockholders for the purpose of receiving payment from the Purchaser and transmitting payment to tendering stockholders. Under no circumstances will interest on the purchase price of Shares be paid by the Purchaser regardless of any delay in making payment. In all cases, payment for Shares purchased pursuant to the Offer will be made only after timely receipt by the Depository of certificates for such Shares or timely confirmation of a book-entry transfer of such Shares into the Depository's account at any of the Book-Entry Transfer Facilities (as defined in the Offer to Purchase) pursuant to the procedures set forth in Section 3 of the Offer to Purchase, a properly completed and duly executed Letter of Transmittal (or facsimile thereof) and any other documents required by the Letter of Transmittal.

Tenders of Shares pursuant to the Offer are irrevocable, except that Shares tendered pursuant to the Offer may be withdrawn at any time prior to 12:00 Midnight, New York City time on Monday, November 6, 1989 (or the latest time and date at which the Offer, as extended by the Purchaser, shall expire) and, unless theretofore accepted for payment by the Purchaser pursuant to the Offer, may also be withdrawn at any time after December 2, 1989. For a withdrawal to be effective, a written, telegraphic, telex or facsimile transmission notice of withdrawal must be timely received by the Depository at one of its addresses set forth on the back cover of the Offer to Purchase. Any notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of the Shares as set forth in the certificates if different from that of the person who tendered such Shares. If certificates for Shares have been delivered or otherwise identified to the Depository, then, prior to the physical release of such certificates, the tendering stockholder must also submit the serial numbers of the particular certificates evidencing the Shares to be withdrawn with a signed notice of withdrawal along with signature(s) guaranteed by a member firm of a registered national securities exchange in the United States or a member of the National Association of Securities Dealers, Inc. or by a commercial bank or trust company having an office or a correspondent in the United States (an "Eligible Institution"), except in the case of Shares tendered for the account of an Eligible Institution. If Shares have been tendered pursuant to the procedure for book-entry transfer as set forth in Section 3 of the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the appropriate Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with such Book-Entry Transfer Facility's procedures. All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by the Purchaser, in its sole discretion, whose determination will be final and binding.

The information required to be disclosed by Rule 14d-6(e)(1)(vii) of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference.

The Company has provided the Parent with the Company's stockholder lists and security position listings for the purpose of disseminating the Offer to holders of Shares. The Offer to Purchase and the related Letter of Transmittal will be mailed by the Purchaser to record holders of Shares and will be furnished by the Purchaser to brokers, dealers, banks and similar persons whose names, or the names of whose nominees, appear on the stockholder lists or, if applicable, who are listed as participants in a clearing agency's security position listing, for subsequent transmittal to beneficial owners of Shares.

The Offer to Purchase and the related Letter of Transmittal contain important information which stockholders should read carefully before making any decision with respect to the Offer.

Requests for copies of the Offer to Purchase, the Letter of Transmittal and all other tender offer materials may be directed to the Information Agent or the Dealer Manager as set forth below, and copies will be furnished promptly at the Purchaser's expense. The Purchaser will not pay any fees or commissions to any broker or other person (other than the Dealer Manager) for soliciting tenders of Shares pursuant to the Offer.

United States:  
287 Park Avenue  
New York, New York 10017  
(800) 565-5500/(212) 619-1100

Banks and Brokers call:  
(212) 883-8900

The Information Agent for the Offer is:

**Carter**  
ORGANIZATION INC.

Europe:  
Carter Valin Pollen  
a member of  
The VPI Group PLC  
32 Grosvenor Gardens  
London SW1W 0DH  
01-730-3456

The Dealer Manager for the Offer is:

**The Blackstone Group L.P.**

345 Park Avenue  
New York, New York 10154  
(212) 935-2826

October 4, 1989

## UK COMPANY NEWS

### Decline from £7.8m knocks 35p off share price **Strong & Fisher drops to £1.17m**

By Jane Fuller

PROFITS at Strong & Fisher, the leather maker, plummeted to less than a sixth of last year's level in the 12 months to June 30.

The pre-tax profit of £1.17m, compared with £7.8m last time, on sales down by 18 per cent to £90.76m (£110.72m). Earnings per share fell from 32.7p to 8.8p. The recommended final dividend of 8.8p will make a total of 12.3p (12p).

Some analysts had expected profits of between £6m and £7m, and the share price fell by 34p to 147p after the results were announced, closing at 146p.

Strong was caught between high prices for raw materials, driven up by an influx of South Korean buyers, and weak cases for the finished leather.

The catalogue of reasons for the disappointing results also included skin quality problems, caused by the introduction of mechanical strippers at abattoirs, and a shortage of labour at the Northamptonshire tanneries. Mr Richard

Strong, managing director, said the latter factor alone had reduced volume by 20 per cent at the main tannery.

With the company 150 per cent geared, interest payments soared from £2.76m to £3.53m. And even the weather has been unkind: mild winters have hit sales of sheepskin coats and hence the demand for Strong's woolskins.

Mr Strong stressed that action was being taken to solve the problems and that prospects for the new Hi-Tech fashion leathers and machine washable suede were exciting. "We are keeping up the dividend to express the board's confidence that these results are a blip."

At the abattoirs, steps had been taken to assure quality. In Northamptonshire, the closure of a woolskin unit would free labour for the main tanneries and release both working capital and property. Work was also being transferred to labour-rich Lancashire.

Mr Strong said that the Hi-Tech products had been well received at the Paris Leather Fair and sampling orders were good.

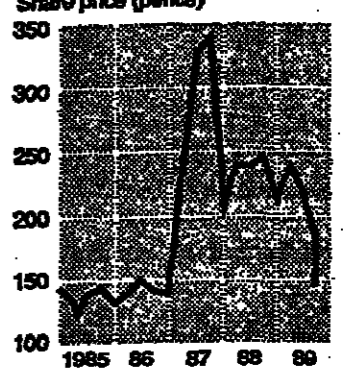
The development and launch costs of Hi-Tech, at more than £700,000, and the £110,000 expense of transferring the Goshall middle-of-the-range line from Guildford to Lancashire were two exceptional items that ate into the year's profits.

#### COMMENT

There is some sympathy for the company's case that these results represent "a blip" and that the products are fundamentally good. Strong could not help the plunger effect of high raw material prices and weak demand; bearing that in mind, sales volume held up quite well, especially as last year's figure included the clearance of Goshall's stock. Remedial action on the labour woolskin and abattoir fronts should prove effective and property sales are expected to

#### Strong & Fisher

Share price (pence)



raise £10m to ease gearing. Borrowing will, however, remain high because a sizeable chunk of it is related to the 27.4 per cent stake in the tanning group Pittard Gernar. Forecasts are in the £2.5m to £3m range, giving a prospective p/e of around 10. The shares have the advantage of a decent yield and potential for recovery.

### Efficiency drive helps Druck Hldgs to £3.83m

DRUCK Holdings, USM-quoted manufacturer of electronic pressure measuring devices, increased sales and profits by about 20 per cent in the year to June 30. Turnover rose from £14.5m to £17.22m and the tax-adjusted result rose from £2.14m to £3.83m.

Mr John Salmon, chairman, said the increases had been achieved by further improvements in manufacturing efficiency and by controlling overheads. Exports had increased from 64 to 68 per cent per cent of sales.

Mr Salmon also announced that Druck had recently won a large contract to supply pressure transducers and pressure

switches for the European Fighter Aircraft programme. This would amount to significant business starting in the early 1990s. However, he expected modest progress in the current year, due to the continuing effect of timing differences with large orders.

To control better the company's growing product range it has been decided to split the operating company, Druck Ltd, into an instrumentation and sensor division.

A final dividend of 4.9p has been recommended, making a total of 7.4p (6.2p) for the year on earnings of 37.4p (31.8p).

### Microfilm surges to £6m and makes US purchase

MICROFILM Reprographics yesterday announced the acquisition of American Management Systems for \$5.3m (£3.3m) cash and reported a 49 per cent rise in annual pre-tax profits from £4.02m to £6.01m.

American Management Systems carries out computer output microfilming and laser printing from premises close to the UK company's Washington office. Microfilm Reprographics plans to expand its laser printing operations. A further consideration of \$700,000 is to be injected into the US group to provide working capital. The acquisition will be financed by a placing of 970,000 new ordinary shares at 420p each.

Turnover at Microfilm rose from £15m to £24.18m in the year to June 30. A final dividend of 3.375p is recommended, making a total of 5.075p (3.375p) for the year on earnings of 15.8p (13.4p).

### Illinois judge rejects Hoylake challenge

BAT Industries reported that an Illinois judge had rejected Hoylake's challenge to a statute giving the state insurance director the right to review insurance company takeovers to protect policyholders.

### Public status sought by Sutton Water

By Andrew Hill

SUTTON District Water Company, which supplies water to 278,000 people south of London, is to follow its neighbour East Surrey Water in seeking to convert from statutory company to public limited company status.

All of the UK's 29 statutory water companies are entitled to seek shareholders' approval for conversion under the new Water Act, which would free them from existing dividend and voting restrictions.

Sutton, which is in Thames Water's region, said the new structure would reflect the existing rights of each of its three classes of stock. The conversion terms proposed are as follows: one 7 per cent preference share and 10 ordinary 'A' shares in Sutton plc for each £1 nominal of 7 per cent ordinary stock in Sutton Water; one 4.9 per cent preference share and 10 ordinary 'A' shares for each £1 nominal of 4.9 per cent ordinary stock; one 3.15 per cent first preference share and 10 ordinary 'B' shares for each £1 nominal of 3.15 per cent preference stock.

Associated Insurance Pension Fund, an Australian investment vehicle belonging to Mr Duncan Saville, holds a 14 per cent stake in Sutton. He also holds 28 per cent of East Surrey, which first heralded a move to plc status in August.

### Property sale boosts Jermyn

A property disposal at a related company enabled Jermyn Investment Co to report a massive increase in interim profits. The pre-tax figure for the six months to June 30 jumped from £112,380 to £1.72m, including profit from related companies of £1.8m, there was no contribution from this area last time.

The profit on the sale of Lansdown house, central London, has enabled Jermyn to expand its investment and development property portfolio. The directors said that the company's portfolio of listed investments had also performed well.

### Camellia makes £1m

Camellia Investments, with interests in fine art and tea plantations, sharply increased pre-tax profits for the six months ended June 30. The figure rose up from £731,000 to £1.02m and the directors said that the consolidated profit on ordinary activities for the current year would exceed that earned in the previous year.

Turnover for the period was up from £15m to £25.5m. Tax took £352,000 (£251,000) and minorities £63,000 (£32,000) leaving earnings of 24.13p (17.18p) for the 10p shares. The interim dividend is raised 1p to 9p.

### CRH spends £10m on Dutch purchases

By Jane Fuller

CRH, the building materials group and one of the biggest companies in the Irish Republic, has spent £1.35m (£10.3m) to acquire two Dutch companies.

A Mays, which comprises four DIY superstores under the Gamma franchise, a self-service store for building contractors and a builders' merchant outlet, will become part of CRH's subsidiary, Van Neebros Beheer.

Van Neebros already operates a chain of 23 Gamma DIY superstores, accounting for about 30 per cent of the sales of Gamma which is the Netherlands' largest DIY group. The CRH subsidiary is also a builders' merchant and a building materials manufacturer.

The other purchase is Kleiwerfabriek Joosten, which makes quality extruded and simulated hand-formed bricks at Kessel, near the West German border. CRH acquired another Dutch brick maker, Facade Beek, earlier this year

and the same marketing, technical and administrative activities will be shared between the two. Between them they have the capacity to make more than 50m bricks a year.

CRH recently announced pre-tax profits of £27.2m on sales of £230.8m (£442m) for the first six months of the year. Mays said Joosten had a combined turnover in 1988 of £1.7m (£21m) on which they made combined profits of £1.45m.

Mr Brian Hill, managing director of CRH's mainland Europe group, said that the

Mays stores would be integrated into the Van Neebros chain. With 26 stores, the company had the second largest DIY chain in the Netherlands. The acquisition would also strengthen the builders' merchant operation in the greater Rotterdam area.

The acquisition of Joosten represented a further step in the development of the European claybrick business, he said. "CRH is well placed to take advantage of the growing demand in the Netherlands for high quality bricks."

#### BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Each meeting is scheduled for the purpose of considering dividends.	
<b>TODAY</b>	
Interline - Anglo-Thai, Eurochem SA, Ultra Rubber Plastics, North Sea & General, Scottish Television, Singapore Press Rubber Estates, Tullis Clay, First-Linkgroup.	Oct. 23
<b>FUTURE DATES</b>	
Interline - Anglo-Thai, Eurochem SA, Ultra Rubber Plastics, North Sea & General, Scottish Television, Singapore Press Rubber Estates, Tullis Clay, First-Linkgroup.	Oct. 23
<b>Interline - Anglo-Thai, Eurochem SA, Ultra Rubber Plastics, North Sea &amp; General, Scottish Television, Singapore Press Rubber Estates, Tullis Clay, First-Linkgroup.</b>	Oct. 23
<b>Interline - Anglo-Thai, Eurochem SA, Ultra Rubber Plastics, North Sea &amp; General, Scottish Television, Singapore Press Rubber Estates, Tullis Clay, First-Linkgroup.</b>	Oct. 23
<b>Interline - Anglo-Thai, Eurochem SA, Ultra Rubber Plastics, North Sea &amp; General, Scottish Television, Singapore Press Rubber Estates, Tullis Clay, First-Linkgroup.</b>	Oct. 23
<b>Interline - Anglo-Thai, Eurochem SA, Ultra Rubber Plastics, North Sea &amp; General, Scottish Television, Singapore Press Rubber Estates, Tullis Clay, First-Linkgroup.</b>	Oct. 23
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6th October, 1989

## UK COMPANY NEWS

## Enlarged Galliford surges 30% to £9.22m

By Peter Franklin

IN SPITE of problems in its group services, insurance and overseas division, Galliford, the Leicester-based contracting and housebuilding group, reported a 30 per cent improvement in pre-tax profits in the year to end-June.

The profits figure of £9.22m came from turnover of £181.07m and included a contribution of around £1m from two acquisitions made in the period and interest receivable of £900,000 derived from the company's £14m of cash reserves.

After the interest gain the group services, insurance and overseas division contributed profits of £487,000 (247,000) from turnover of £2.73m (2.59m).

The result in this division was affected by a loss of £400,000 resulting from malpractices at MEP, the Singapore-based hardwoods processor in which Galliford has a 45 per cent stake. This company's losses were now under review, said Mr Peter Galliford, the chairman.

The group's result compared with restated profits of £7.11m from turnover of £175.31m last time and despite the much-publicised downturn in private housing demand, benefited from increased margins at Stamford Homes, its housebuilding division, which put in profits of £3.02m (£1.63m).

The chairman said that the company's housebuilding interests were exclusively in Lincolnshire and Cambridgeshire, and some 150 properties had been completed during the year. The group had a significant landbank, he said, and completions next year were expected to be at about the same level.

Galliford's core business of building and civil engineering improved its contribution to £3.7m (£3.22m) from turnover up from £104.61m to £105.07m. Mr Galliford said that around half of this had come from building, while the remainder had been generated by the civil engineering side.

The addition of Anconite, the tile specialist acquired in February, and Rock and Allium, the piling specialist for which Galliford had paid £4.25m in June, had extended the range of the group's specialist contracting activities.

With its broad spread, the company was well placed to benefit from the roadbuilding and reconstruction plans currently under consideration by the Government, and Mr Galliford expected to see some expansion in roadbuilding next year.

The plans of the soon-to-be privatised water authorities for heavy future expenditure would open up new opportunities for the group, which is among the industry's leaders in such technology as pipeline renovation, the chairman said.

The company is currently one of three contractors working with Southern Water and the DOE in installing water meters throughout the Isle of Wight. However, Galliford was suffering a loss on this contract owing to unforeseen problems such as the reluctance of some consumers to have them fitted and problems of gaining entry to properties.

After a tax charge of £2.38m (£2.64m) earnings per 5p share improved to 8.12p (6.15p) and the proposed final dividend of 3.00p (2.5p) makes a total for the year of 3.5p (3.2p).

After rising 2p to 88p Galliford's shares closed down 1p at 85p.

## Assoc Newspaper

Associated Newspaper Holdings subsidiary, Northcliffe Newspaper Group, has applied to the DTI for consent to the transfer of Turbay Weekender to Northcliffe.

## Profits advance 89% despite US freight forwarding downturn US security subsidiary lifts LEP

By John Ridding

A FULL contribution from its US security subsidiary, previously an associated company, helped lift LEP Group, the broadly-based services group, to pre-tax profits of £9.55m in the six months to the end of June, an increase of 89 per cent.

Turnover increased at a slower rate, from £58.82m to £64.44m but earnings per share were up 85 per cent at 5.8p (3.4p). The interim dividend has been raised from 1.45p to 1.75p.

Mr John Read, chairman, said that National Guardian Corporation, the US security business in which LEP raised its stake from 40 per cent to

100 per cent last September, contributed almost half of the profits during the period.

The business is one of the largest players in the US industry, behind ADT, Honeywell and Wells Fargo, and is continuing to expand through acquisition. So far this year NGC has made 15 acquisitions at a total cost of about £15m (£9.4m).

The group does not break down profits at the interim stage, but said that the second largest divisional contribution came from the freight forwarding operations, the company's original business. Mr Read said that "excellent results were achieved in the UK, Portugal,

Italy, Hong Kong and Japan."

But increased losses, of about £1.5m, were suffered in its US freight forwarding businesses. This is the result of depressed rates which arose partly from price cutting by Emery, the US operator which has now been acquired by Consolidated Freightways.

Swift Transport Services, the UK specialist physical distribution concern, was said to have had a successful period. The expansion of its European network continued with the purchase of a Belgian operator.

In the industrial holdings division, PREM, a piece of equipment used to diagnose viral infections of the blood has recently received an order for 450 units. The group said that "this would contribute significantly to the second half performance of LEP scientific."

## COMMENT

The fact that LEP's shares fell 15p to 150p yesterday, with most of the damage done before the chancellor's interest rate hike, seems unfair given the increase in profits and earnings per share. But a number of analysts had expected even more. Underneath the conflicting expectations lies a sound overall performance with the only blip coming from the US freight businesses. With Emery having been swallowed



John Read: Half of group profits from US security side

and rates already rising recovery is on the cards, although break even will have to wait until next year at least. Despite this, full year pre-tax profits should still reach £31m with boosts from PREM and the likelihood of property profits. In the longer term there are real attractions in its European freight and transport network which, along with the reliable base of the US security market, suggests that the prospective rating of 10 may be a little cheap.

## Assoc Fisheries further decline to £918,000

A further decline in pre-tax profits was reported by Associated Fisheries, the food processor and cold store operator, in the six months to end-June.

The company, which changed its year end at the request of its parent, Eastern Produce (Holdings), reported pre-tax profits down to £918,000 from £1.4m in the corresponding period. In the 15 months to December 31 1988 a £1.64m drop in investment income contributed to a decline in profits from £5.82m to £5.08m.

At the operating level profits fell from £1.43m to £755,000 and net interest receivable came to £163,000 (£12,000 payable).

## Profits rise but Quarto is concerned over magazines

Quarto Group, the book and magazine publisher incorporated in the US and quoted on the USM, raised its profits from \$882,000 to \$1.21m pre-tax for the half year ended June 30. Turnover rose by \$5.58m to \$12.79m.

Earnings amounted to 5.3p (4.3p) and the interim dividend is being lifted from 1.125p to 1.5p.

The book publishing activities continued to perform strongly but in the area of magazine publishing, the directors were somewhat concerned about future growth.

The three May acquisitions all performed well and made a contribution to the first half results.

## IN BRIEF

ARLEY HOLDINGS has sold a 1.84 acre site at Brampton Road, Eastbourne, for £810,000 of which £200,000 has already been received.

BURNS ANDERSON has acquired Thames Employment Bureau for £268,000, satisfied by the issue of £268,000 of loan notes repayable between April 6 1990 and December 31 1994. In addition, Burns-Anderson is acquiring the net assets of the business at their book value of about £175,000.

CATKIE ALLEN Holdings is to acquire Birrell Smith Underwriting Agencies subject to contract and the approval of the Council of Lloyds and all the BSUA shareholders. Consideration will be £200,000 either in cash or new Cater shares. Completion is expected before the end of 1989. BSUA acts as managing agent at Lloyds for non-marine syndicate 368, and also runs a small members agency.

MILLER, RAYNER and Hayson: Listing for its 10 per cent cumulative preference shares was cancelled at 9 a.m. on October 5 1989 at the company's request.

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6 October 1989

**Galliford**

**Preliminary Results**

Year to 30th June	1989	1988 (Restated)	% Change
Turnover	£181.07m	£175.31m	+3%
Profit before tax	£9.22m	£7.10m	+30%
Earnings per share	8.12p	6.15p	+32%
Dividends per share	3.90p	3.2p	+22%

★ All divisions contributed to profit growth.  
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## THE PROPERTY MARKET

## The problems of predicting the future

By Michael Brett

ONE of the oddest of all booms in the commercial property market is now nearing its end. At its height, rental values were rising at over 35 per cent a year. For most types of property the rate of growth is now tailing off rapidly.

But observers are having more difficulty than usual in predicting the outlook for property values. The problem is that these values did not behave as they might have been expected to during the upswing. Is past experience any guide, therefore, as to what will happen now things are cooling, or is the property market moving into unfamiliar territory?

The chart demonstrates the problem. The year-on-year rate of growth in rental values is shown by the vertical bars while the thick black line shows average yields on property of institutional quality. The figures are derived from the Investors Chronicle Hillier Parker (ICHP) rent index. For comparison, average yields on equities are shown by the dotted line.

Not only have yields on

property and on equities - by tradition, alternative growth investments in institutional eyes - moved in opposite directions; but also property yields have fallen when logic should have dictated a rise and risen when evidence of faster income growth might have been expected to prompt a fall.

Any index is necessarily a generalisation. The ICHP index, covering office, shop and industrial property across the country, disguises the patterns of individual markets. Shop rents in London's Oxford Street follow a different cycle from factory rents in Scotland. City offices have risen at different times and rates from those around the M25. But the index is still a valid reflection of the general mood in the commercial property market. The mood has changed radically over the last 10 years.

Look back at the late 1970s. The average yields on which investors were prepared to buy property dropped quite sharply at the end of the decade, giving a boost to capital values, and they remained flat into the early 1980s. The same principles

apply to the property market as to the equity market - investors will accept a lower yield today when their expectations of future income growth are rising - and the turn-of-the-decade fall in yields might have been justified by the surge in rents in 1978-79.

Certainly, the institutions were piling into property at the time and forcing prices up and yields down. In 1980 insurance companies and pension funds net purchases of property were well above current levels at £1.5bn, with the pension funds taking on board almost £1bn worth. In the first half of 1989 the pension funds were net sellers of land and property.

But if yields came down in the late 1970s, the same logic should have seen them moving up sharply from the early 1980s as recessionary forces began to bite and rental growth tailed off.

In practice, it was not until late 1982 that yields began to rise, and they continued to rise without a break until 1987. If rents are static, rising yields mean falling capital values for property (ignoring the technical

effect of reversions). Even if rents are rising modestly, an accompanying rise in yields can cancel most of the beneficial effects on values. And this was the story of the first half of the current decade. Total returns on property slumped. The pension funds in particular became disillusioned, the more so when they compared slender property returns with the increasing values of the equity market.

But by 1986 the property investment market was getting it wrong again. At that point tenant demand for space embarked on another of its cyclical upswings. The rate of rental growth was rising to a new peak and a buyer of many types of property in 1986 could have more than doubled his money by 1989. By and large, buyers failed to emerge from the ranks of the institutions. The countervailing attractions of the equity market were one reason. And disillusionment with recent past performance certainly prevented many pension funds from spotting the change in the climate. As Michael Mallinson, chief surveyor of the Prudential puts it, the rise in rents came so fast that by the time many pension funds spotted what was happening, it was time to get worried about the next downturn.

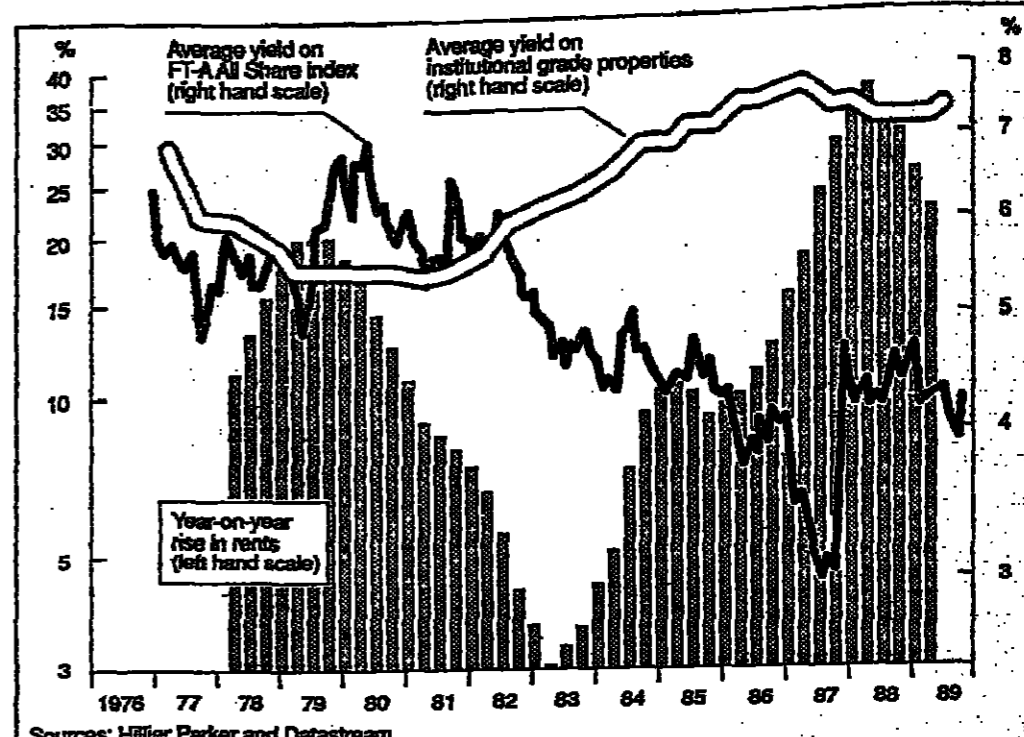
The effect has been distinctly strange. Yields remained close to their peak throughout a sharp rise in rental values, instead of falling

as they had done in previous property cycles and as dividend yields would have done in a rising equity market. The small dip in average yields on the chart post-1986 owes much to industrial property - factory and warehouse buildings - the yields of which showed a significant fall from a very high base.

Here lies the problem of predicting the future. The recent explosion in commercial property values owes almost everything to rising rents and very little to falling yields. It should therefore be more soundly based than if it had resulted mainly from a fall in the yield basis of valuation which could easily be reversed, as the 1974-76 period demonstrated.

If yields did not fall significantly in the upswing, perhaps there is little reason for them to rise significantly and damage capital values as the surge in rents subsides? It is a comforting argument, but the property world is far from sure.

Within the general pattern there is considerable scepticism as to the correct level of yields for some shopping properties which has enjoyed exceptionally high rental growth. Here the yields on which investors are prepared to buy are already moving up in many instances. There is also scepticism in the City office market. Foreign buying has so far prevented a marked increase in yields despite static or possibly falling rental values; nobody is



Sources: Hillier Parker and Datastream

too keen to predict how long this support will continue.

There are other factors at work with wider implications. Norman Bowie, a long-time observer of property investment trends, still feels that property yields often make insufficient allowance for depreciation and obsolescence of the physical structures. They may need to be higher to allow for this factor.

In today's more permissive planning environment, perhaps long-term rental growth will be lower, averaged out over the

the property market's cycles. If this is the case it would indicate the need for higher average yields than in the past, relative to other forms of investment, and perhaps help to explain why property yields remained high during the latest upswing. Take this argument further and you have a sea change in the property market. It moves back closer to the pre-war or immediate post-war pattern where property was regarded more as security for debt than equity investment.

It is too big a change for many market observers to contemplate. But it is interesting that, in the past couple of years, the gap between average property yields and the cost of long-term debt has been narrower than for many years previously. And that, as the institutions' equity investment in property becomes relatively less significant, bank lending on commercial property has reached an all-time peak of around £27bn. The debt-based property market could be closer than you think.

TOTAL RETURNS (%)				
	Retail	Office	Industrial	All Properties
Year to August 89	14.7	29.7	34.8	23.5
Quarter to August 89	2.7	5.6	8.9	4.8
Month of August 89	0.9	1.3	2.9	1.4

Source: Investment Property Database

October 1989

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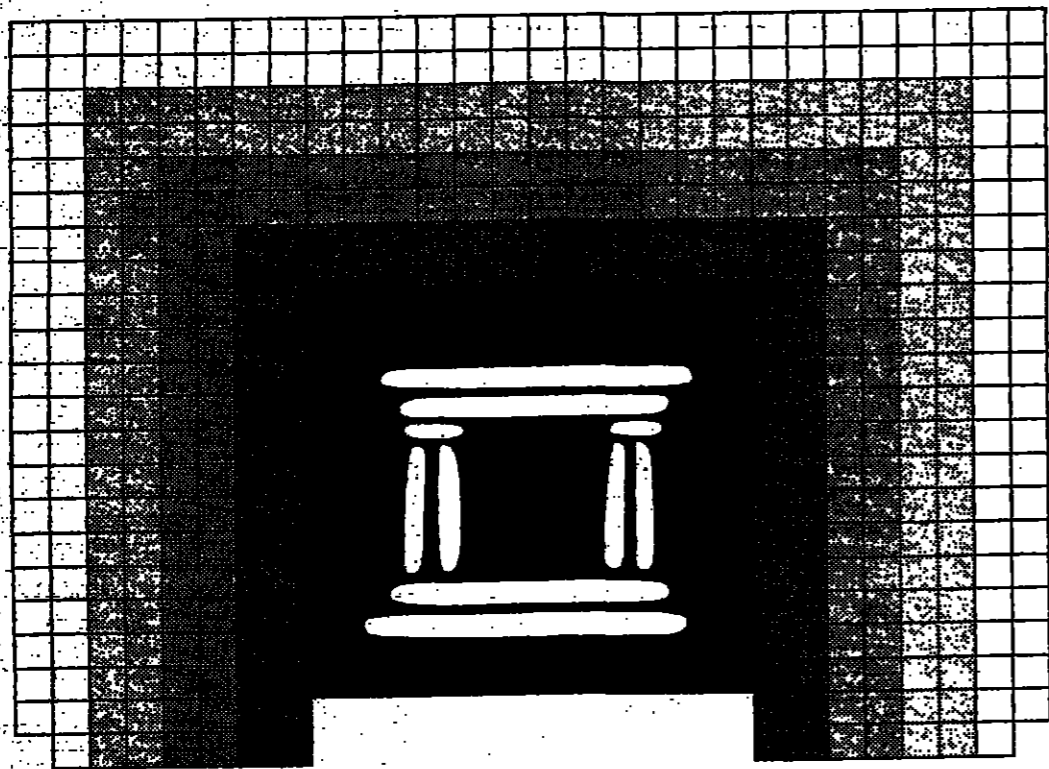
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Copies of the RFP may be obtained from RIOC, either in person or by writing, "Southtown" 591 State Street, Roosevelt Island, New York 10044, or by Fax at (212) 593-3910. Requests should be to the attention of Mr. Harriette Goodman.

To be considered, all documentation in response to this Request must be submitted by hand no later than 4:00 PM on November 30, 1989, at the RIOC office, Attn: Mr. Harriette Goodman.

Developers will be required to comply with affirmative action and affirmative fair marketing programs of the Agencies.

For further information, please contact Stephen M. Stearns, NYS DHCR, (212) 593-3910.

Richard L. Higgins, Commissioner, DHCR  
Rosina K. Abramson, President, RIOC  
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## COMMODITIES AND AGRICULTURE

## N Sea rise lifts oil supply to highest this decade

By Steven Butler

WORLD OIL supplies outside the communist countries last month touched their highest level this decade at 53.9 barrels a day.

The high was accounted for mainly by rising output from the developed countries, the International Energy Agency reported yesterday. The last reported figures at these levels were in the fourth quarter of 1979, when supplies averaged over 54m b/d.

Most of the increase was attributable to the continuing recovery of North Sea oil production, which rose from 3.8m b/d to 4.1m b/d. But production in the North Sea has been in steady decline, also advanced by some 100,000 b/d to hit 9.4m b/d.

Production by members of the Organisation of Petroleum Exporting Countries was unchanged on a month by month basis at 22.3m b/d. However, this masked changes in the output levels of some of the Gulf countries.

Saudi Arabian production rose from 4.9m b/d to 5m b/d, while production by the United Arab Emirates rose from 2m b/d to 2.2m b/d.

IRAN HAS found vast reserves of natural gas in the southern province of Fars, the national news agency IRNA said yesterday, reports Reuter from Teheran.

The agency, monitored in the Cypriot capital, quoted local parliamentary representative Mr Reza Hussein as saying that the fields, located around the town of Lamard, extended 80 km (50 miles) in length and 12 km (7.5 miles) in width.

The news agency said that the deposits were sufficient to supply gas for about 200 years.

"According to Oil Ministry experts the deposit is the third biggest in the country... It contains 8,000bn cubic metres of gas in the western wing alone," Mr Hussein said.

Iran has the world's second biggest natural gas reserves after the Soviet Union.

Production by Iran and Iraq fell by 200,000 b/d and 100,000 b/d respectively to 2.8m b/d. Analysts believe these countries have experienced difficulties

ties sustaining higher levels of production.

The rise in oil production, however, was readily absorbed by increased demand and oil prices held steady during the month.

In the developed countries, third quarter consumption is estimated to have risen by three per cent to 37.3m b/d. In the fourth quarter, however, the IEA believes consumption in the developed countries is likely to fall marginally compared to last year, leading to a full year increase of under two per cent.

However, owing to fast-rising consumption in the developing countries, world oil consumption is projected to rise by 1.2m b/d for the whole year, or 2.4 per cent.

In 1990 the IEA is projecting a slowdown from these rapid rates of growth. In the first three quarters of 1990, oil consumption in the developed countries is projected to rise by just 1.2 per cent, assuming economic growth of 2.75 per cent. Growth in developing country consumption is also forecast to slow to 500,000 b/d, or 3.5 per cent.

## Ok Tedi wins waste dumping permission

By Chris Sherwell in Sydney

PAPUA NEW Guinea's valuable Ok Tedi copper and gold mine, located high in the remote Star mountains on the Indonesian border, has won government permission to discharge waste sediments and residues into the 1,100 km-long Fly River system.

The long-awaited decision, originally due by the end of July, was announced in Port Moresby yesterday by Mr Patterson, Minister of Mines and Energy, and Mr Jim Wain, Environment Minister. They called it a "tough decision".

Their announcement clears a major hurdle for the mine's operator and 30 per cent shareholder, BHP of Australia, and its partners - Amoco of the US (30 per cent), a West German consortium (20 per cent) and the Papua New Guinea Government (20 per cent).

It also coincides with the continued shutdown of Papua New Guinea's first major mine, the Bougainville copper and gold mine at the opposite, eastern end of the country. There, a sabotage campaign by militant secessionist-inclined local landowners has deprived the central and provincial governments of substantial revenues.

This almost certainly contributed to the Ok Tedi decision. But it appears that the alternative option of building a tailings dam was not really feasible, as the mine area is subject to dangerous slippage and the costs would have rendered the mine uneconomic. In 1984, a massive landslide halted attempts to construct a dam.

Although the decision is expected to attract protests from local politicians in the country's western province, to help smooth the way the company is funding a Kina 2.5m (£1.8m) development package to help downstream inhabitants adjust. An official said this would mean learning different fishing techniques and developing alternative sources of food.

The Ok Tedi mine is located atop Mt Fubian at an altitude of more than 6,000 ft. It began production of gold in May 1984, while the first copper processing facilities were commissioned in May 1987. It has become a major contributor to government revenues through royalties, taxes and dividends.

Over its 20 year life, some 400m of milled ore residues and 600m tonnes of overburden will be handled. At peak production, which the mine is approaching, mine-derived sediments are expected to total about 70m tonnes of rock and ore residue per year.

## Ivory Coast faces facts on prices

Mark Huband on a make-or-break policy of financial prudence

OCTOBER IS the crucial month where beans and the Ivory Coast are concerned.

As a violent downpour soaked the streets of the administrative capital, Yamoussoukro, a handful of carefully-selected cocoa farmers yesterday gathered for a long-awaited and thrice-cancelled meeting with the country's President, Mr Felix Houphouët-Boigny, at the beginning of what promises to be the country's make-or-break financial year.

Lengthy presidential visits to France, aimed at securing more funding to get the beleaguered economy back on track, had led to the farmers being kept waiting for nearly a year before being granted yesterday's meeting, at which the effect of the dramatic fall in the price they are to be paid for their cocoa could be spelled out to the 60-year-old leader.

Cocoa pricing is the main annual political test faced by the Ivorian Government. And the bleak future it presents for farmers this year is a sign that economic prudence rather than assured political stability is now the main priority, a clear break with the policy of the last two years.

Last week's 50 per cent cut in the price paid to cocoa producers for their main 1989-90 crop by the government marketing board, the Caisse de Stabilisation (Caistab), is the first measure in a desperate bid to reduce the Caistab's deficit, which currently stands at 140bn CFA francs (\$270m).

By slashing the guaranteed prices paid to farmers from 400 to 200 CFA francs per kilo, the Government hopes to meet the essential requirement of its creditors of a cut in the Caistab deficit. On Monday, Paris and London club donors to the Ivory Coast began a two-day meeting in Paris and an announcement is expected on the size of new loans to be made.

A major proviso during months of negotiations has been that a realistic producer price be set for the main export crop in order to reduce the fiscal deficit from 17 to around 8 per cent of GDP. In July, the producer price set for the mid-crop was 250 CFA francs, while the Government maintained that it was continuing to pay the 400 CFA francs it had agreed in 1988 for the main cocoa crop.

A year ago, the warning bells of impending disaster were ringing loud and clear. A price cut was the only logical

step but was not taken. Despite a world cocoa price in 1988 of 450 CFA francs, the cost to the Caistab was 700. Of this amount, 300 was the cost of transport, with the remaining 400 the amount the Government had committed itself to paying the producers.

Ivorian cocoa was kept off the market unless break-even prices of 700 CFA francs could be obtained. This system seemed to succeed in the short term. But in the end it damaged the Ivory Coast's reputation as a reliable supplier in the face of stiff competition from neighbouring Ghana, whose beans are generally considered superior.

Judging by the events of the past week, traditional reluctance to admit that it is the market which determines the price appears to have diminished.

Despite claims by the Ivorian President last week that it was speculators on the world market who were responsible for setting the price, the country has had to take the inevitable step of a producer price cut.

On Wednesday, the market price for cocoa was set at 2700 per tonne. This was achieved by reducing export and other taxes, thereby reducing the

break-even price to \$560 per tonne.

"Because the market price is now over break-even, it's business as usual," said an official of one trading house in Abidjan yesterday.

But on the same day, coffee prices plummeted 30 per cent on the London market to a 14-year low of \$570 a tonne. Coffee and Cocoa sales between them account for almost 60 per cent of Ivorian exports.

On Tuesday, the Caistab set the price paid to coffee producers at 100 CFA francs per kilo for robusta, a cut from 200 CFA francs.

Producer prices for first grade cotton were unchanged at 115 CFA francs per kilo, while the price for second grade cotton was cut to 100 from 105 CFA francs.

While the emphasis in Ivorian government circles may have shifted away from political stability at all costs, achieved at the expense of high producer prices, and towards greater economic prudence, the range of price cuts could soon be seen as only a first step. The spectre of a devaluation of the CFA franc has been privately hinted at as being the inevitable way out of the President's dilemma. It is calling the nation's fourth economic crisis.

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## Iran to buy Argentine wheat

By Gary Mead in Buenos Aires

ARGENTINA'S state-run National Grain Board has signed a deal to sell Iran 1.4m tonnes of wheat (valued at US\$200m), according to Mr Felipe Sola, Agriculture Secretary. The price has been fixed for the first batch of 800,000 tonnes (to be delivered between December this year and March 1990), at \$150 a tonne, the price for the remaining 600,000 tonnes (to be delivered between April and June 1990) will be determined in February.

At the same time as announcing the Iran deal Mr Sola stated that he estimated a total wheat harvest this season of between 11m and 12m tonnes. Government figures show that Argentina has already contracted to sell some 4m tonnes of wheat from this year's crop.

Besides the government supply of 1.4m tonnes to Iran private exporters are expected to send a further 300,000 tonnes. Brazilian contracts with both government and private Argentine exporters now total 1.6m tonnes, with Syria and Turkey

having signed deals for 400,000 tonnes each.

Iran has often purchased Argentine wheat in the past; 900,000 tonnes in 1981 (which was then three-quarters of its total import requirement), and 1m tonnes in 1987. Friendly bilateral trade relations were disturbed in 1986 when Argentina considered selling Pucara fighters to Iran, then at war with Iraq. Iran suspended purchases of Argentine goods, later restoring the relationship after Argentina withdrew plans to sell the Pucara to Iraq.

## Australia tries to break Suez sheep deadlock

By Tony Walker in Cairo

AUSTRALIA yesterday stepped up its diplomatic efforts to persuade Egypt to allow a shipload of 10,000 Australian sheep to pass through the Suez Canal for sale in Europe.

Mr John Godfrey, Australia's charge d'affaires in Cairo, asked Mr Anaf Ebeid, Egypt's Minister of Cabinet Affairs, to help secure passage for the sheep which were refused transit rights early last week.

Egyptian officials blocked the transshipment of the sheep through the canal, following their rejection by Arab Gulf states on the grounds that they were diseased.

Australian officials strenuously deny that there is anything wrong with the sheep. An Australian Government spokesman arrived in Cairo to monitor their condition.

Australia's diplomatic representatives warn that it might take some days for the dispute to be resolved. Efforts were also made yesterday to persuade Egyptian quarantine officials to co-operate in efforts to move the sheep through the canal.

The Italian owners of the sheep have warned that unless the matter is resolved soon the sheep might have to be slaughtered and dumped overboard.

## Rail cars to use more aluminium

By Richard Mooney

ALUMINIUM'S SHARE of European passenger rolling stock manufacture was likely to more than double to about 50 per cent by the turn of the century, Mr J. Zehnder, vice president of Alusuisse, the Swiss aluminium, chemicals and engineering group, said this week. He estimated that the sector currently used about 30,000 tonnes of aluminium a year.

Speaking in Bilbao, at a joint presentation with Talgo, a privately-owned Spanish rail car manufacturer, and RENFE, the Spanish federal railway company, Mr Zehnder said the

main reasons for quickening growth were the special properties of the metal - its light weight coupled with strength, corrosion resistance and value retention (thanks to its recyclability).

Another important factor, Mr Zehnder said, was the degree of co-operation between users of the metal and the suppliers, "which goes far beyond the level seen for traditional construction materials."

He said Alusuisse, after introducing in 1975 the technology for producing large extruded shapes suitable for use in rolling stock, "went to

great lengths to provide not only the raw material, but also all the necessary ancillary services such as planning, calculating, building and testing prototypes, production advice and maintenance guidelines."

The Swiss company was heavily involved, for example, in the development of Talgo's high speed "Pendular" train, with its revolutionary suspension system, and supplied extruded sections for the construction of this and other trains manufactured by Talgo for Renfe and regional Spanish railway services.

## Company failure highlights Israeli citrus problems

By Eilat Shvily in Jerusalem

ISRAEL'S LEADING citrus contractor, the heavily indebted Tuva Export co-operative society, has been placed in receivership in a dramatic start to the 1989-90 fruit picking season, which began late last month.

The problems at Tuva Export, which owes about \$20m, have coincided with the introduction of a reform plan formulated over the course of the summer to revitalise the citrus sector.

Inefficiencies in the heavily-regulated industry have been exacerbated in recent seasons by bad weather at a time when competition from producers such as Spain and Morocco has been on the increase.

Last season, citrus production declined to 1.05m tonnes, of which about 35 per cent went for export - mostly to the European Community - raising some \$130m. According to Agriculture Ministry officials, production has fallen by about half over the last decade.

But Mr Yoram Weinberg, managing director of the country's Citrus Marketing Board, is predicting a marked improvement this year. He forecasts production at 1.25m tonnes, and hopes to export 40 per cent.

However, the start of the season was dominated by the crisis at Tuva Export, a co-operative owned by the Kibbutzim and Moshavim co-operative farm movements which themselves have been in deep financial difficulties in recent years.

Tuva Export is the biggest of five sorting and packaging houses to which, until the latest reforms were introduced, all citrus producers were obliged to sell their fruit. According to the Citrus Board, it got into difficulties mainly because of financing it extended to its co-operative owners.

Mr Avraham Katz Oz, the Israeli Agriculture Minister, refused to provide Tuva Export with the guarantees it requested to cover its debts because he believed that it had failed to respond to his demands for increased efficiency in the citrus sector.

The Ministry accused Tuva Export of mismanagement, making unnecessary acquisitions and failure to shed surplus workers. Previously, the Ministry of Agriculture had put up for sale another citrus contractor, Yachin Agriculture, for much the same reasons. The management of Tuva

Export duly resigned and a receiver was appointed to ensure that the company, which processes almost half the country's citrus production, was able to continue in operation while its debts were being rescheduled.

In the meantime, kibbutzim in the Jordan Valley transferred packaging of their citrus from Tuva Export to packaging houses of their choice, taking advantage of the new reforms.

The changes are limited: for example, the Citrus Marketing Board will retain its monopoly control over all exports. But the intention is to allow more competition at every other level, giving producers more direct access to markets and, in theory, a better return. At the same time, the Government is planning to oversee increased spending on research and development to make new and improved varieties available.

For its part, the Citrus Marketing Board is reviewing its marketing channels in the European Community in readiness for the 1992 internal market programme.

Israel's citrus exports for the coming year are expected to reach about 29m boxes, worth some \$150m.

## WORLD COMMODITIES PRICES

## LONDON MARKETS

NICKEL prices closed at the day's lows on the LME, three-month metal shedding \$280 to \$10,187.50 a tonne, the lowest closing level for 12 months.

The market's rallies are becoming smaller and shorter-lived as the overhang of unwanted material and inefficient end-user demand take effect, traders said. The strength of sterling against the dollar left dollar-based tin, aluminium and zinc prices higher, the sterling copper contract gave up earlier gains.

Analysts said chart readings for copper were mixed - the bulls still cite long-term closures in several centres as supporting factors while the bears point to the market's repeated failure to breach resistance around \$2,900. Coffee prices halted this week's steep decline, although dealers said the fundamentals remained bearish. The IO talks and today.

## SPOT MARKETS

Crude oil (per barrel FOB) + or -  
Dubai \$15.70-6.50c -0.25c  
Brent \$16.20-6.50c -0.25c  
W.T.I. (1st east) \$16.50-6.50c -0.25c

## Oil products

NRM prompt delivery per tonne CIF + or -  
Premium Gasoline \$206-208 -4  
Gas Oil \$172-173 -2  
Heavy Fuel Oil \$182-183 -2  
Naphtha \$165-165 -2  
Petroleum Argon Estimates \$170-170

## Other

Gold (per troy oz) \$365.50 -0.75  
Silver (per troy oz) \$52c +2  
Platinum (per troy oz) \$425.00 +0.85  
Palladium (per troy oz) \$190.25

## Aluminium (new metal)

Copper (US Producer) \$1.70 -0.20  
Lead (US Producer) \$0.54 -0.02  
Nickel (new metal) \$90c -15  
Tin (Kuala Lumpur market) \$22.51  
Tin (New York) \$34.25 +7.0  
Zinc (US Prime Western) \$80.25c

## Cattle (live weight)

Sheep (head weight) \$13.75p +9.17  
Pigs (live weight) \$16.25p +2.99

## London daily sugar (raw)

London daily sugar (white) \$407.75 +1  
Tate and Lyle export prices \$407.75 +4.5

## Barley (English feed)

Maize (US No. 3 yellow) \$122.75p  
Wheat (US Hard Northern) \$127.50p

## Rubber (spoke)

Rubber (spoke) \$5.50p -0.50  
Rubber (sheet) \$6.25p -0.50  
Rubber (RSS No. 1) \$23.00p -1.5

## Coconut oil (Philippines)

Palm Oil (Malaysian) \$48.5c  
Copra (Philippines) \$2.15  
Soyabean (US) \$18.00p +1  
Cotton "A" index \$62.00p -0.15  
Wooltops (Bris Super) \$87p

## Cocoa

Cocoa (per tonne) \$1,800.00 -0.25c  
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## COCOA - London F&amp;O

Date	Close	Previous	High/Low
Dec	734	728	735 728
Jan	722	718	723 715
Feb	721	729	733 729
Mar	746	742	745 739
Apr	760	758	760 754
May	768	763	769 757
Jun	769	761	767 759

Turnover: 6757 (8573) lots of 5 tonnes  
ICO indicator prices (5000s per tonne). Daily price for Oct 5: \$1,827.50 (948.31). 15 day average \$1,811.00 (928.57)

## COFFEE - London F&amp;O

Date	Close	Previous	High/Low
Nov	887	884	708 873
Dec	884	884	698 867
Jan	885	700	710 877
Feb	714	715	730 698
Mar	721	722	730 729
Apr	757	755	770 750
May	760	755	760 759

Turnover: 5933 (7715) lots of 5 tonnes  
ICO indicator prices (US cents per pound) for Oct 4 Comp. daily \$1.52 (\$4.31). 15 day average \$1.51 (\$4.28)

## SUGAR - London F&amp;O

Date	Close	Previous	High/Low
Dec	317.00	321.00	316.00
Jan	318.00	318.00	318.00
Feb	308.00	313.00	313.00 308.00
Mar	302.00	308.00	308.00 302.00
Apr	291.00	298.00	298.00 291.00
May	291.00	298.00	298.00 291.00
Jun	291.00	298.00	298.00 291.00

Turnover: 3679 (2440) lots of 50 tonnes  
White 1181 (1305)  
Partials White (FFP per tonne): Dec 2910, Mar 2925, May 2925, Aug 2920, Oct 2915, Dec 2922

## CRUDE OIL - F&amp;O

Date	Close	Previous	High/Low
Nov	18.19	18.51	18.19 18.18
Dec	17.78	18.20	18.10 17.92
Jan	17.78	18.03	17.98 17.75
Feb	18.40	18.40	

## GAS OIL - F&amp;O

Date	Close	Previous	High/Low
Nov	17.00	17.25	17.00 16.75
Dec	16.80	17.25	17.00 16.75
Jan	16.80	17.25	17.00 16.75
Feb	16.80	17.25	17.00 16.75
Mar	16.80	17.25	17.00 16.75
Apr	16.80	17.25	17.00 16.75
May	16.80	17.25	17.00 16.75
Jun	16.80	17.25	17.00 16.75

## FRUIT AND VEGETABLES

## LONDON STOCK EXCHANGE

## Base rate increases hurt equities

THE MOVE to 15 per cent base rate, albeit as part of a general increase in European interest rates, delivered a severe jolt to confidence in the UK equity market which had begun to hope for deliverance from its worst fears. Share prices were marked down heavily, often too quickly for would-be sellers to take action. Although equities steadied well before the close, the mood in the market was extremely gloomy. Strategists at the leading investment houses were reviewing their forecasts for the remainder of the year.

After falling during the morning, the Footsie turned a 2 point gain into a 42 point loss

Account Opening Dates		
First Dealings	Oct 2	Oct 15
Second Dealings	Oct 2	Oct 28
Third Dealings	Oct 2	Oct 27
Fourth Dealings	Oct 2	Oct 27

Share prices fell sharply after the Bank of England's decision to raise the base rate to 15 per cent.

The brunt of the setback was taken by stocks and consumer goods, where profits are likely to be hurt by the pressures on consumer incomes of higher

interest rates. Some comfort came from the announcement from the Halifax Building Society that it would hold mortgage rates steady for the moment, but market analysts doubt if home loan rates can be left unchanged for long.

At the close, the FT-SE index was a net 30.5 down at 2,281.6. Seaq volume of 491.4m shares against Wednesday's 473.4m indicated only a modest increase in trading, with the proviso that most of yesterday's business came after the rise in base rates.

Some determined selling was seen but traders commented that this was mostly from the performance-related funds,

which need to minimise losses, and not from the main body of investment funds which take the longer term view. In fact, according to some traders, even some performance-related funds bought stock back before the end of the day.

"The base rate hike implies a much harder landing for the UK economy; we can certainly wave goodbye to prospects for a soft one," commented Mr John Reynolds at Prudential-Bache. However, he added that the London market will continue to benefit from its substantial discount against Wall Street, currently around 500 points discount compared with an average 260 over the

past two years. At County NatWest, Mr Bob Semple sees a reaction down to Footsie 2,200 "at least", and expects the downward move to appear over the next week or so. However, Nomura Securities reiterated its relatively optimistic view, stating confidently that "the time to buy is now, into weakness if need be."

The interest rate excitement did not entirely distract attention from the speculative scene. Heavy trading in Jaguar shares followed fresh reports from the US of potential interest by General Motors; trading was further complicated when a market maker inserted an incorrect share price.

## Morgan tales rebuffed

Shares in Morgan Grenfell and the rest of the merchant banking sector, as well as of insurance broker Willis Faber, raced higher during the morning on suggestions that the 21 per cent stake in Morgan Grenfell held by Willis had been sold and that a full-scale takeover bid for Morgan would be likely to follow.

But the story was shot down later in the day, when Morgan Grenfell shares declined steeply after a Morgan board statement. "In the light of recent renewed speculation and movement in the share price, the company announces no discussions with any third party are in progress." And Willis Faber said its stake had not changed hands.

Earlier, the Morgan share price had peaked at 40p after widespread speculation that the Willis holding had been sold at 40p a share and that a 40p a share bid was soon to follow. Names mentioned included Credit Suisse, Deutsche Bank, holder of a near 5 per cent stake. Credit Suisse, Barclays Bank and a number of Japanese financial institutions.

Bid stories concerning Morgan Grenfell have been widely circulating since Big Bang but have recently grown in intensity with the share price heavily supported for the past week.

Morgan stock closed officially a net 30 higher at 2281.6, but during session hours dealers the shares were quoted as low as 357p bid-367p, offered by Morgan Stanley.

One trader's summary: "The market has been caught on the wrong foot - everybody's short, but there is no smoke without fire."

## Jaguar busy again

Jaguar shares moved into the fast lane when a US arbitrageur was quoted on a US news wire as saying that General Motors was preparing to bid for a stake in the British luxury car company at between \$12 and \$16 a share, in a rival move to Ford, which has declared an intention to buy up 15 per cent of the Jaguar equity.

There was no announcement from General Motors, but over 5m Jaguar shares were traded in London yesterday and the price touched 740p at the peak before falling back to close at 720p.

Mr Michael Cusner-Charles, group controller, has become finance director of MBS. He succeeds Mr David Downes, who resigned as finance director on September 30.

Mr Robert Simmons has joined LONDON AND PROVINCIAL FACTORS as marketing director. He was formerly the senior marketing manager of Göttsche London branch.

FKI has appointed Mr Norman Scouler as chief executive.

Mr John Wynne has been made operations director at BETAANIA FIRE, part of Britannia Security Group's integrated systems division.

At HUNTINGDON INTERNATIONAL HOLDINGS Mr James E.A. Carruthers has been made finance director.

68p, a gain on the day of 3p. Mr Steve Reisman, analyst at UBS Phillips & Drew, said: "It does not look out of court, but that would only come as a consequence of a bidding war."

[A report on Jaguar dealings in yesterday's edition wrongly stated that almost 2m contracts had been traded in the options market; this should have read almost 2m shares.]

## Focus on Boots

Boots backed the market today, moving strongly ahead on suggestions that its pharmaceutical manufacturing interests to Fisons, the medical product manufacturer. Boots' share price was given a further boost when speculation grew that an international consortium had acquired a 4.9 per cent stake in the company.

The suggestion that Boots might sell its pharmaceutical interests had been mentioned in the market before and was linked to news that its heart drug, Monopril, was not proving as successful in tests as had been initially hoped. But analysts poured scorn on the suggestion of the possible sale.

This rumour is extremely absurd, Boots' management has said. It is committed to its manufacturing side and it is part of its overall strategy, one analyst said. Boots closed up 9 at 294, having traded 5.2m shares.

The stores sector had a poor day, underpinned not only by higher interest rates but also by poor results from Next. Analysts said the interest rate rise had come at the worst possible time for the sector, with stores preparing for the busy Christmas period.

Next half-time pre-tax profits, excluding property transactions, were down 47 per cent at £16.2m, compared with expectations of £20m. Next blamed its sharp profit fall on higher trading conditions and said it would rationalise its operations. But the market was not impressed and Next closed down 20 at 105p, having traded a heavy 8.5m shares.

Next has expanded in an uncontrolled manner and it's going to take a lot of restructuring to turn it around," said Mr Chris Dickman of Smith New Court. Indeed, Next had said it will include a provision of £50-55m in its end-year figures to cover the cost of its restructuring and changes in its warehousing facilities. Analysts said this puts a question

mark over its final dividend and could serve to undermine its share until the full results. In fact, if the exceptional item was included, Next would be set to record a loss of around £30m, Mr Steve Oldfield of BZW said. He added that he had downgraded his full-year estimates for Next to £40m from £80m, without including the exceptional items. UBS Phillips & Drew analysts said they had lowered their Next earnings forecast to £22m from £34m, while James Capel reckoned profits would fall to £35m from £55m.

But while the Next results were bad news the worst news for the sector was yet to come. The rise in interest rates, which if it triggers a hike in mortgage rates, would damage still further the hard-pressed consumer. The stores sector is one of the first to be affected by changes in interest rates, analysts said.

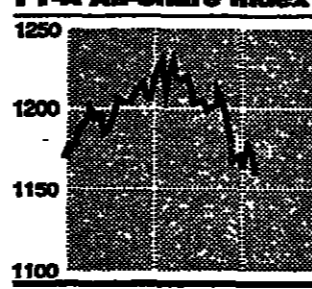
"This sector has underperformed the rest of the market for four years and a rise in the mortgage rates would, over the short-term, only make it worse," said Mr Oldfield. However, he added that as the sector had underperformed for so long, institutions would be unlikely to lower their stock holdings.

Stam underlined its reputation as the exception in the sector after a small rise in half-time profits. After stripping out property transactions, earnings rose to £5.3m from £5.7m. On the basis of the results, analysts at UBS Phillips & Drew raised their full-year profit estimate to £18.5m from £18.3m. Stam closed down 23 at 183p.

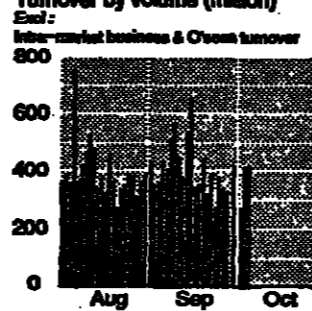
Great Universal Stores slipped by less than the rest of the sector following news that it had bought 250,000 of its "A" shares on Wednesday. GUS's purchase was the second it had made since it said it intended to buy its own shares in order to keep the market confident of its share value. The last purchase was in April when it bought 150,000 shares. It has purchased a total of 1 per cent of its shares. GUS "A" closed down 9 at 108p.

The wave of speculative buying that followed the Morgan stake-change rumours saw the whole merchant banking sector hit up strongly during the morning before coming off to close well off the top. Hambros touched 243p, before ending the session a net 5 higher at 238p, while Klein-

## FT-A All-Share Index



## Equity Shares Traded



wort Benson, boosted during the past few weeks by the company buying in its own shares, climbed to 367p before settling at a net 4 up at 373p. Schwabach added 10 at 1455p while 80 Warburg, chased up to 433p in the morning, dipped off to close only a shade up at 423p.

The clearing banks opened on a happy enough note but were given a hefty whack on news of the interest rate rise, before staging a useful rally late in the day. "We've seen a lot of cheap buyers after the rate rise, which is seen as more positive for the banks than anybody else," said one dealer.

Barclays fell 6 to 511p, 2.5m while Lloyds gave up 5 to 385p. Midland and NatWest, at 367p and 325p, were little changed.

Standard Chartered, after the joint venture deal with Western Union, fell 12 more to 323p with dealers taking the view that a possible takeover of Standard is now even further away.

Life assurances gave further ground, worried by brokers' recommendations to take profits in the sector as the Pearl bid unfolded. Pearl slipped 3 to 622p despite a growing conviction around the market that a realistic offer for Pearl would have to be in the region of 700p a share to have any chance of success. Sm Life retreated 10 to 1090p and Britannia 6 to 515p.

In the composites Royal Insurance were marked down 8 to 455p on 2m with specialists taking the view that the stake held by the John Spalvin-controlled Astism has almost been dissolved into the market. The Ferranti share price held up well in the face of the overall market slide - it closed little changed at 574p on turnover much reduced at

## FINANCIAL TIMES STOCK INDICES

	Oct 5	Oct 4	Oct 3	Oct 2	Year Ago	High	Low	Since Completion
Government Secs	84.14	84.16	84.58	84.51	84.57	88.38	88.28	127.4
Fixed Interest	95.01	95.09	95.19	95.20	95.98	96.70	99.59	105.4
Ordinary Share	1956.2	1990.2	1990.3	1976.9	1995.7	1491.5	2008.6	1447.8
Gold Mines	208.2	208.4	208.5	211.9	212.0	174.2	215.2	154.7
FT-SE 100 Share	2281.6	2312.1	2318.6	2298.2	2298.4	1638.9	2426.0	1782.8
Ord. Div. Yield	4.39	4.32	4.30	4.35	4.31	4.67	4.24	4.24
Earning Yld % (full)	10.53	10.36	10.30	10.42	10.34	11.77	9.93	9.93
P/E Ratio (full)	11.44	11.83	11.70	11.57	11.85	10.29	12.52	12.52
SEAG Bargains (Spn)	25.076	25.109	25.346	22.633	27.740	24.721	24.721	24.721
Equity Turnover (m)	955.72	882.82	635.76	998.47	1101.89	1101.89	1101.89	1101.89
Equity Bargains	25.478	25.099	23.698	27.672	25.109	25.109	25.109	25.109
Share Traded (m)	410.5	408.1	272.9	403.4	405.5	405.5	405.5	405.5
Ordinary Share Index, Hourly changes	Day's High 1956.2	Day's Low 1956.4						
Open	1956.2	10 a.m. 1956.2	11 a.m. 1956.3	12 p.m. 1956.3	1 p.m. 1956.3	2 p.m. 1956.3	3 p.m. 1956.3	4 p.m. 1956.3
FT-SE 100, Hourly changes	Day's High 2312.1	Day's Low 2270.1						
Open	2311.7	10 a.m. 2308.3	11 a.m. 2310.5	12 p.m. 2312.1	1 p.m. 2314.1	2 p.m. 2313.5	3 p.m. 2277.8	4 p.m. 2279.1

## TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAG system yesterday until 5 p.m.

Stock	Value	Qty	Day's change	Stock	Value	Qty	Day's change	Stock	Value	Qty	Day's change
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+
British Petroleum	1,200	17	+	British Petroleum	1,200	17	+	British Petroleum	1,200	17	+
Esso	1,200	17	+	Esso	1,200	17	+	Esso	1,200	17	+
Amoco	1,200	17	+	Amoco	1,200	17	+	Amoco	1,200	17	+
BP	1,200	17	+	BP	1,200	17	+	BP	1,200	17	+
Shell	1,200	17	+	Shell	1,200	17	+	Shell	1,200	17	+



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## LONDON SHARE SERVICE

BRITISH FUNDS					BRITISH FUNDS—Cont'd					LOANS				
1989 High	1989 Low	Stock	Price \$	Yield %	1989 High	1989 Low	Stock	Price \$	Yield %	1989 High	1989 Low	Stock	Price \$	Yield %
<b>"Stars" (Lives up to Five Years)</b>					<b>Over Fifty Years</b>					<b>Building Societies</b>				
1021	924	Trust Sec 1986-92	99.9	10.30	1021	944	Overseas 9/12/2005	94.5	9.92	924	98	Franklin 11/26/11.9	99.1	11.66
1022	925	Trust Sec 1986-92	99.9	10.30	1022	945	Overseas 9/12/2005	94.5	9.92	925	99	Franklin 11/26/11.9	99.1	11.66
1023	926	Trust Sec 1986-92	99.9	10.30	1023	946	Overseas 9/12/2005	94.5	9.92	926	100	Franklin 11/26/11.9	99.1	11.66
1024	927	Trust Sec 1986-92	99.9	10.30	1024	947	Overseas 9/12/2005	94.5	9.92	927	101	Franklin 11/26/11.9	99.1	11.66
1025	928	Trust Sec 1986-92	99.9	10.30	1025	948	Overseas 9/12/2005	94.5	9.92	928	102	Franklin 11/26/11.9	99.1	11.66
1026	929	Trust Sec 1986-92	99.9	10.30	1026	949	Overseas 9/12/2005	94.5	9.92	929	103	Franklin 11/26/11.9	99.1	11.66
1027	930	Trust Sec 1986-92	99.9	10.30	1027	950	Overseas 9/12/2005	94.5	9.92	930	104	Franklin 11/26/11.9	99.1	11.66
1028	931	Trust Sec 1986-92	99.9	10.30	1028	951	Overseas 9/12/2005	94.5	9.92	931	105	Franklin 11/26/11.9	99.1	11.66
1029	932	Trust Sec 1986-92	99.9	10.30	1029	952	Overseas 9/12/2005	94.5	9.92	932	106	Franklin 11/26/11.9	99.1	11.66
1030	933	Trust Sec 1986-92	99.9	10.30	1030	953	Overseas 9/12/2005	94.5	9.92	933	107	Franklin 11/26/11.9	99.1	11.66
1031	934	Trust Sec 1986-92	99.9	10.30	1031	954	Overseas 9/12/2005	94.5	9.92	934	108	Franklin 11/26/11.9	99.1	11.66
1032	935	Trust Sec 1986-92	99.9	10.30	1032	955	Overseas 9/12/2005	94.5	9.92	935	109	Franklin 11/26/11.9	99.1	11.66
1033	936	Trust Sec 1986-92	99.9	10.30	1033	956	Overseas 9/12/2005	94.5	9.92	936	110	Franklin 11/26/11.9	99.1	11.66
1034	937	Trust Sec 1986-92	99.9	10.30	1034	957	Overseas 9/12/2005	94.5	9.92	937	111	Franklin 11/26/11.9	99.1	11.66
1035	938	Trust Sec 1986-92	99.9	10.30	1035	958	Overseas 9/12/2005	94.5	9.92	938	112	Franklin 11/26/11.9	99.1	11.66
1036	939	Trust Sec 1986-92	99.9	10.30	1036	959	Overseas 9/12/2005	94.5	9.92	939	113	Franklin 11/26/11.9	99.1	11.66
1037	940	Trust Sec 1986-92	99.9	10.30	1037	960	Overseas 9/12/2005	94.5	9.92	940	114	Franklin 11/26/11.9	99.1	11.66
1038	941	Trust Sec 1986-92	99.9	10.30	1038	961	Overseas 9/12/2005	94.5	9.92	941	115	Franklin 11/26/11.9	99.1	11.66
1039	942	Trust Sec 1986-92	99.9	10.30	1039	962	Overseas 9/12/2005	94.5	9.92	942	116	Franklin 11/26/11.9	99.1	11.66
1040	943	Trust Sec 1986-92	99.9	10.30	1040	963	Overseas 9/12/2005	94.5	9.92	943	117	Franklin 11/26/11.9	99.1	11.66
1041	944	Trust Sec 1986-92	99.9	10.30	1041	964	Overseas 9/12/2005	94.5	9.92	944	118	Franklin 11/26/11.9	99.1	11.66
1042	945	Trust Sec 1986-92	99.9	10.30	1042	965	Overseas 9/12/2005	94.5	9.92	945	119	Franklin 11/26/11.9	99.1	11.66
1043	946	Trust Sec 1986-92	99.9	10.30	1043	966	Overseas 9/12/2005	94.5	9.92	946	120	Franklin 11/26/11.9	99.1	11.66
1044	947	Trust Sec 1986-92	99.9	10.30	1044	967	Overseas 9/12/2005	94.5	9.92	947	121	Franklin 11/26/11.9	99.1	11.66
1045	948	Trust Sec 1986-92	99.9	10.30	1045	968	Overseas 9/12/2005	94.5	9.92	948	122	Franklin 11/26/11.9	99.1	11.66
1046	949	Trust Sec 1986-92	99.9	10.30	1046	969	Overseas 9/12/2005	94.5	9.92	949	123	Franklin 11/26/11.9	99.1	11.66
1047	950	Trust Sec 1986-92	99.9	10.30	1047	970	Overseas 9/12/2005	94.5	9.92	950	124	Franklin 11/26/11.9	99.1	11.66
1048	951	Trust Sec 1986-92	99.9	10.30	1048	971	Overseas 9/12/2005	94.5	9.92	951	125	Franklin 11/26/11.9	99.1	11.66
1049	952	Trust Sec 1986-92	99.9	10.30	1049	972	Overseas 9/12/2005	94.5	9.92	952	126	Franklin 11/26/11.9	99.1	11.66
1050	953	Trust Sec 1986-92	99.9	10.30	1050	973	Overseas 9/12/2005	94.5	9.92	953	127	Franklin 11/26/11.9	99.1	11.66
1051	954	Trust Sec 1986-92	99.9	10.30	1051	974	Overseas 9/12/2005	94.5	9.92	954	128	Franklin 11/26/11.9	99.1	11.66
1052	955	Trust Sec 1986-92	99.9	10.30	1052	975	Overseas 9/12/2005	94.5	9.92	955	129	Franklin 11/26/11.9	99.1	11.66
1053	956	Trust Sec 1986-92	99.9	10.30	1053	976	Overseas 9/12/2005	94.5	9.92	956	130	Franklin 11/26/11.9	99.1	11.66
1054	957	Trust Sec 1986-92	99.9	10.30	1054	977	Overseas 9/12/2005	94.5	9.92	957	131	Franklin 11/26/11.9	99.1	11.66
1055	958	Trust Sec 1986-92	99.9	10.30	1055	978	Overseas 9/12/2005	94.5	9.92	958	132	Franklin 11/26/11.9	99.1	11.66
1056	959	Trust Sec 1986-92	99.9	10.30	1056	979	Overseas 9/12/2005	94.5	9.92	959	133	Franklin 11/26/11.9	99.1	11.66
1057	960	Trust Sec 1986-92	99.9	10.30	1057	980	Overseas 9/12/2005	94.5	9.92	960	134	Franklin 11/26/11.9	99.1	11.66
1058	961	Trust Sec 1986-92	99.9	10.30	1058	981	Overseas 9/12/2005	94.5	9.92	961	135	Franklin 11/26/11.9	99.1	11.66
1059	962	Trust Sec 1986-92	99.9	10.30	1059	982	Overseas 9/12/2005	94.5	9.92	962	136	Franklin 11/26/11.9	99.1	11.66
1060	963	Trust Sec 1986-92	99.9	10.30	1060	983	Overseas 9/12/2005	94.5	9.92	963	137	Franklin 11/26/11.9	99.1	11.66
1061	964	Trust Sec 1986-92	99.9	10.30	1061	984	Overseas 9/12/2005	94.5	9.92	964	138	Franklin 11/26/11.9	99.1	11.66
1062	965	Trust Sec 1986-92	99.9	10.30	1062	985	Overseas 9/12/2005	94.5	9.92	965	139	Franklin 11/26/11.9	99.1	11.66
1063	966	Trust Sec 1986-92	99.9	10.30	1063	986	Overseas 9/12/2005	94.5	9.92	966	140	Franklin 11/26/11.9	99.1	11.66
1064	967	Trust Sec 1986-92	99.9	10.30	1064	987	Overseas 9/12/2005	94.5	9.92	967	141	Franklin 11/26/11.9	99.1	11.66
1065	968	Trust Sec 1986-92	99.9	10.30	1065	988	Overseas 9/12/2005	94.5	9.92	968	142	Franklin 11/26/11.9	99.1	11.66
1066	969	Trust Sec 1986-92	99.9	10.30	1066	989	Overseas 9/12/2005	94.5	9.92	969	143	Franklin 11/26/11.9	99.1	11.66
1067	970	Trust Sec 1986-92	99.9	10.30	1067	990	Overseas 9/12/2005	94.5	9.92	970	144	Franklin 11/26/11.9	99.1	11.66
1068	971	Trust Sec 1986-92	99.9	10.30	1068	991	Overseas 9/12/2005	94.5	9.92	971	145	Franklin 11/26/11.9	99.1	11.66
1069	972	Trust Sec 1986-92	99.9	10.30	1069	992	Overseas 9/12/2005	94.5	9.92	972	146	Franklin 11/26/11.9	99.1	11.66
1070	973	Trust Sec 1986-92	99.9	10.30	1070	993	Overseas 9/12/2005	94.5	9.92	973	147	Franklin 11/26/11.9	99.1	11.66
1071	974	Trust Sec 1986-92	99.9	10.30	1071	994	Overseas 9/12/2005	94.5	9.92	974	148	Franklin 11/26/11.9	99.1	11.66
1072	975	Trust Sec 1986-92	99.9	10.30	1072	995	Overseas 9/12/2005	94.5	9.92	975	149	Franklin 11/26/11.9	99.1	11.66
1073	976	Trust Sec 1986-92	99.9	10.30	1073	996	Overseas 9/12/2005	94.5	9.92	976	150	Franklin 11/26/11.9	99.1	11.66
1074	977	Trust Sec 1986-92	99.9	10.30	1074	997	Overseas 9/12/2005	94.5	9.92	977	151	Franklin 11/26/11.9	99.1	11.66
1075	978	Trust Sec 1986-92	99.9	10.30	1075	998	Overseas 9/12/2005	94.5	9.92	978	152	Franklin 11/26/11.9	99.1	11.66
1076	979	Trust Sec 1986-92	99.9	10.30	1076	999	Overseas 9/12/2005	94.5	9.92	979	153	Franklin 11/26/11.9	99.1	11.66
1077	980	Trust Sec 1986-92	99.9	10.30	1077	1000	Overseas 9/12/2005	94.5	9.92	980	154	Franklin 11/26/11.9	99.1	11.66
1078	981	Trust Sec 1986-92	99.9	10.30	1078	1001	Overseas 9/12/2005	94.5	9.92	981	155	Franklin 11/26/11.9	99.1	11.66
1079	982	Trust Sec 1986-92	99.9	10.30	1079	1002	Overseas 9/12/2005	94.5	9.92	982	156	Franklin 11/26/11.9	99.1	11.66
1080	983	Trust Sec 1986-92	99.9	10.30	1080	1003	Overseas 9/12/2005	94.5	9.92	983	157	Franklin 11/26/11.9	99.1	11.66
1081	984	Trust Sec 1986-92	99.9	10.30	1081	1004	Overseas 9/12/2005	94.5	9.92	984	158	Franklin 11/26/11.9	99.1	11.66
1082	985	Trust Sec 1986-92	99.9	10.30	1082	1005	Overseas 9/12/2005	94.5	9.92	985	159	Franklin 11/26/11.9	99.1	11.66
1083	986	Trust Sec 1986-92	99.9	10.30	1083	1006	Overseas 9/12/2005	94.5	9.92	986	160	Franklin 11/26/11.9	99.1	11.66
1084	987	Trust Sec 1986-92	99.9	10.30	1084	1007	Overseas 9/12/2005	94.5	9.92	987	161	Franklin 11/26/11.9	99.1	11.66
1085	988	Trust Sec 1986-92	99.9	10.30	1085	1008	Overseas 9/12/2005	94.5	9.92	988	162	Franklin 11/26/11.9	99.1	11.66
1086	989	Trust Sec 1986-92	99.9	10.30	1086	1009	Overseas 9/12/2005	94.5	9.92	989	163	Franklin 11/26/11.9	99.1	11.66
1087	990	Trust Sec 1986-92	99.9	10.30	1087	1010	Overseas 9/12/2005	94.5	9.92	990	164	Franklin 11/26/11.9	99.1	11.66
1088	991	Trust Sec 1986-92	99.9	10.30	1088	1011	Overseas 9/12/2005	94.5	9.92	991	165	Franklin 11/26/11.9	99.1	11.66
1089	992	Trust Sec 1986-92	99.9	10.30	1089	1012	Overseas 9/12/2005	94.5	9.92	992	166	Franklin 11/26/11.9	99.1	11.66
1090	993	Trust Sec 1986-92	99.9	10.30	1090	1013	Overseas 9/12/2005	94.5	9.92	993	167	Franklin 11/26/11.9	99.1	11.66
1091	994	Trust Sec 1986-92	99.9	10.30	1091	1014	Overseas 9/12/2005	94.5	9.92	994	168	Franklin 11/26/11.9	99.1	11.66
1092	995	Trust Sec 1986-92	99.9	10.30	1092	1015	Overseas 9/12/2005	94.5	9.92	995	169	Franklin 11/26/11.9	99.1	11.66
1093	996	Trust Sec 1986-92	99.9	10.30	1093	1016	Overseas 9/12/2005	94.5	9.92	996	170	Franklin 11/26/11.9	99.1	11.66
1094	997	Trust Sec 1986-92	99.9	10.30	1094	1017	Overseas 9/12/2005	94.5	9.92	997	171	Franklin 11/26/11.9	99.1	11.66
1095	998	Trust Sec 1986-92	99.9	1										

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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Base rate rise helps sterling

THE WEST German Bundesbank wants a firmer D-Mark. This was the message from yesterday's decision to raise the official interest rate by a full point, according to market observers. Danger of inflation, on the back of a strong economy, was seen as justification for the move, on a day when West Germany announced a rise in its August current account surplus to DM6.7bn, from a revised DM4.9bn in July.

Reaction yesterday was for the D-Mark to weaken however, as the dollar maintained a strong attraction, even after the rise in European rates and Federal Reserve intervention. Sterling, however, gained ground against the D-Mark and dollar, buoyed by a rise of 1 per cent to 15 per cent in UK bank base rates. At the London close the pound had climbed to DM3.0350 from DM3.0225 and had put on 55 points to \$1.6100. Sterling also rose to ¥229.00 from ¥226.25, to Sfr2.6350 from Sfr2.6100, and to FFfr10.2875 from FFfr10.2200. The pound's index finished 0.7 higher at 91.6.

Mr Nick Parsons at Union Discount said market reaction suggested that this could be the top for base rates, but that Mr Nigel Lawson, the Chancellor,

should take the chance at next week's Tory Party Conference, or his Mansion House speech later this month, to reassure the financial markets. Mr Parsons believes that in due course the pound will fall below DM3.00, but this need not be a problem if sterling's index holds at around 90.0. This can be achieved if the pound rises against the dollar, and the Chancellor should direct market attention in this direction.

The pound's performance was encouraging on a day when the Bundesbank and many other European central banks increased discount, Lombard and other official rates by up to a full point.

Mr Chris Tinker, currency analyst at UBS Phillips & Drew, said he did not see any domestic reason for a further rise in UK rates and fears the latest rise has significantly increased the risk of sending the economy into recession. On the other hand, the Bundes-

bank may be prepared to keep on raising rates until inflation is at an acceptable level, and this could lead to a revaluation of the D-Mark in the European Monetary System.

Mr Neil MacKinnon, senior economist at Chase Investment Bank, agrees the Bundesbank is likely to increase rates again and is not certain that 15 per cent base rate is high enough to defend the pound in the long run.

In Tokyo the Bank of Japan welcomed the German action but indicated that it was not considering a similar move. The yen continued to weaken against D-Mark however, with the German currency rising to ¥75.47 from ¥75.13, and lost ground to the dollar.

The strong dollar rose to ¥142.90 from ¥141.05 in London and also improved to DM1.8555 from DM1.8775, to Sfr1.6360 from Sfr1.6270, and to FFfr6.3900 from FFfr6.3700. The dollar's index eased to 69.8 from 69.9.

## EMS EUROPEAN CURRENCY UNIT RATES

Currency	Unit	Rate	% change	% change	Discrepancy
Belgian Franc	42.4582	43.1179	+0.02	+0.12	+1.6424
Dutch Guilder	7.26212	7.26212	0.00	0.00	0.0000
French Franc	6.55953	6.55953	0.00	0.00	0.0000
German Mark	1.00000	1.00000	0.00	0.00	0.0000
Italian Lira	1.93627	1.93627	0.00	0.00	0.0000
Spanish Peseta	166.639	166.639	0.00	0.00	0.0000

Changes are for 100, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

## POUND SPOT-FORWARD AGAINST THE POUND

Oct 5	Day's sprint	Close	Use month	% p.a.	Time months	% p.a.
US	1,600.0 - 1,636.0	1,609.0 - 1,610.0	0.80 - 0.77cmm	5.80	2.8 - 2.12	5.80
Japan	1,680.0 - 1,682.0	1,672.0 - 1,673.0	0.80 - 0.77cmm	5.80	2.8 - 2.12	5.80
Netherlands	3,900.0 - 3,920.0	3,920.0 - 3,920.0	0.80 - 0.77cmm	6.70	2.9 - 2.5	6.70
Germany	1,600.0 - 1,600.0	1,600.0 - 1,600.0	0.80 - 0.77cmm	5.80	2.8 - 2.12	5.80
Denmark	11,710.0 - 11,830.0	11,710.0 - 11,830.0	0.45 - 0.40cmm	4.50	1.25 - 1.10	4.50
Ireland	1,130.0 - 1,130.0	1,190.0 - 1,190.0	0.45 - 0.40cmm	4.40	1.25 - 1.10	4.40
France	1,130.0 - 1,130.0	1,190.0 - 1,190.0	0.45 - 0.40cmm	4.40	1.25 - 1.10	4.40
Portugal	254.70 - 254.70	254.70 - 254.70	27.00 - 27.00	0.87	2.0 - 2.17	0.87
Spain	2,222.0 - 2,222.0	2,222.0 - 2,222.0	5.30 - 5.30	2.16	14.12 - 14.12	2.16
Italy	2,222.0 - 2,222.0	2,222.0 - 2,222.0	5.30 - 5.30	2.16	14.12 - 14.12	2.16
Sweden	10,210.0 - 10,210.0	10,210.0 - 10,210.0	14.12 - 14.12	4.80	12.5 - 12.5	4.80
Switzerland	10,210.0 - 10,210.0	10,210.0 - 10,210.0	14.12 - 14.12	4.80	12.5 - 12.5	4.80
Belgium	21.30 - 21.30	21.30 - 21.30	11.10 - 11.10	6.24	3.1 - 2.7	6.24
Austria	21.30 - 21.30	21.30 - 21.30	11.10 - 11.10	6.24	3.1 - 2.7	6.24
UK	1,470.0 - 1,470.0	1,470.0 - 1,470.0	0.50 - 0.50cmm	4.61	1.50 - 1.50	4.61

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# CANADA

Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng
<b>TORONTO</b>																	
<i>4pm prices October 5</i>																	
<i>Quotations in cents unless marked \$</i>																	
4343 ADRS P	\$174	17	17	17	+	68 C NCH A						31195 Laidlaw A	\$564	254	224		
5000 Alcan	\$214	154	164			6000 Con Tux						31199 Laidlaw B	\$574	254	224		
5000 Alcan	\$214	154	164			1265 Concor	\$144	144	144	+		31200 Laidlaw C	\$574	254	224		
10507 Aldens	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31201 Laidlaw D	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31202 Laidlaw E	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31203 Laidlaw F	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31204 Laidlaw G	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31205 Laidlaw H	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31206 Laidlaw I	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31207 Laidlaw J	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31208 Laidlaw K	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31209 Laidlaw L	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31210 Laidlaw M	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31211 Laidlaw N	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31212 Laidlaw O	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31213 Laidlaw P	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31214 Laidlaw Q	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31215 Laidlaw R	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31216 Laidlaw S	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31217 Laidlaw T	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31218 Laidlaw U	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31219 Laidlaw V	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31220 Laidlaw W	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31221 Laidlaw X	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31222 Laidlaw Y	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31223 Laidlaw Z	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31224 Laidlaw AA	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31225 Laidlaw AB	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31226 Laidlaw AC	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31227 Laidlaw AD	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31228 Laidlaw AE	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31229 Laidlaw AF	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31230 Laidlaw AG	\$574	254	224		
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1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31232 Laidlaw AI	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31233 Laidlaw AJ	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31234 Laidlaw AK	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31235 Laidlaw AL	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31236 Laidlaw AM	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31237 Laidlaw AN	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31238 Laidlaw AO	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31239 Laidlaw AP	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31240 Laidlaw AQ	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31241 Laidlaw AR	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31242 Laidlaw AS	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31243 Laidlaw AT	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31244 Laidlaw AU	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31245 Laidlaw AV	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31246 Laidlaw AW	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31247 Laidlaw AX	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31248 Laidlaw AY	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31249 Laidlaw AZ	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31250 Laidlaw BA	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31251 Laidlaw BB	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31252 Laidlaw BC	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31253 Laidlaw BD	\$574	254	224		
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1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31255 Laidlaw BF	\$574	254	224		
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1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31259 Laidlaw BJ	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31260 Laidlaw BK	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31261 Laidlaw BL	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31262 Laidlaw BM	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31263 Laidlaw BN	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31264 Laidlaw BO	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31265 Laidlaw BP	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31266 Laidlaw BQ	\$574	254	224		
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1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31272 Laidlaw BW	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31273 Laidlaw BX	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31274 Laidlaw BY	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31275 Laidlaw BZ	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31276 Laidlaw CA	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31277 Laidlaw CB	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31278 Laidlaw CC	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31279 Laidlaw CD	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31280 Laidlaw CE	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31281 Laidlaw CF	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31282 Laidlaw CG	\$574	254	224		
1505 Alcan	\$224	22	22	22	+	1265 Concor	\$144	144	144	+		31283 Laidlaw CH	\$574	254	224		
1505 Alcan	\$224																

NEW YORK DOW JONES										INDICES									
Oct 5	Oct 6	Oct 7	Oct 8	1989	LOW	HIGH	LOW	HIGH	LOW	Oct 5	Oct 6	Oct 7	Oct 8	1989	HIGH	LOW			
Industrials	2773.56	2741.39	2754.56	2713.72	2773.56	2	2144.64	2773.56	2	41.22	ADRIATICA								
Home Bldg	92.51	92.59	92.45	92.36	92.51	92.59	92.45	92.36	92.51	92.59	1772.5	1775.6	1772.1	1743.4	1781.0	1743.9			
Transport	1498.76	1457.11	1469.28	1455.19	1498.76	1457.11	1469.28	1455.19	1498.76	1457.11	865.1	857.0	863.3	845.8	875.1	845.9			
Utilities	218.57	217.68	217.5	216.49	218.57	217.68	217.5	216.49	218.57	217.68	ADRIATICA								
											Crk. Akr. (C12/88)	500.24	494.71	494.78	478.42	502.94	478.42		
											BELGIUM								
											Bureau SE (C12/88)	6698.41	6645.28	6679.59	6650.40	6805.28	6549.9		
											DEUTSCHLAND								
											Capitulation SE (C12/88)	333.98	331.54	328.52	328.13	356.45	324.71		
											FINLAND								
											Index General (C12/88)	680.9	681.4	684.6	695.4	815.8	677.9		
											FRANCE								
											CA General (C12/88)	556.6	550.1	542.9	545.8	557.3	549.8		
											Ind. Telekom (C12/88)	129.9	125.7	124.7	123.7	126.6	122.9		
											FINLAND								
											FAZ Aktien (C12/88)	678.43	678.89	679.13	664.72	685.02	678.9		
											Commodities (C12/88)	1827.5	1823.9	1823.9	1598.0	1827.5	1823.9		
											HONG KONG								
											Index General (C12/88)	1616.21	1613.7	1602.4	1577.0	1616.21	1613.7		
											INDONESIA								
											Index General (C12/88)	2803.17	2794.39	2786.65	2745.10	3009.64	2745.10		
											IRELAND								
											Index General (C12/88)	1776.64	1776.54	1775.50	1775.01	1848.93	1775.01		
											ITALY								
											CA General (C12/88)	694.63	699.04	697.43	701.28	734.94	697.43		
											JAPAN								
											Index General (C12/88)	3552.99	3532.80	3546.37	3542.92	3549.98	3532.80		
											Tokyo SE (C12/88)	2675.96	2675.96	2674.80	2703.58	2703.58	2675.96		
											NETHERLANDS								
											Index General (C12/88)	268.6	268.2	265.1	264.3	272.5	267.9		
											CS All Sh (End 1988)	206.5	206.2	205.1	205.2	215.2	204.9		
											Index General (C12/88)	206.3	206.3	206.3	206.3	206.3	206.3		
											Index General (C12/88)	206.3	206.3	206.3	206.3	206.3	206.3		

[illegible][illegible]

Base values of all indices are 100 except: NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Nikkei - 1000. Toronto indices based 1975 and Montreal 1971/72. Includes bonds: Industrial, public Utilities, Financial and Transportation. G Closed, U Unavailable.


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Thursday October 5 1989

Stocks	Closing	Change	Stocks	Closing	Change
YTD	Price	on day	YTD	Price	on day
Toto Motor	16.1m	+27	Gleran	6.7m	+1,767
Nissan Motor	12.2m	+10	Gashen	1.1m	+2,916
Nippon Steel	11.0m	+75	Tokai	8.1m	+1,149
Daihatsu Koshu La.	11.0m	+10	Nagai	7.7m	+623
				7.7m	+140

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 47

## OVER-THE-COUNTER

[illegible]

**4pm prices  
October 5**

[illegible]

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## AMERICA

## Transport issues surge on bid for American Airlines

## Wall Street

THE EQUITY market again proved resilient yesterday, in spite of a round of interest rate rises overseas and the sign of an easing of monetary policy by the Federal Reserve, writes Janet Bush in New York.

The Dow Jones Industrial Average was quoted 247 points higher at a record 2,773.56. Volume was active, with 178m shares traded on the New York Stock Exchange.

The broad-based Standard & Poor's 500 index, the American Stock Exchange index and the Nasdaq Composite, all trading at record highs, showed small gains.

The stellar performer was the Dow Jones Transportation Average, which closed 31.65 points higher at 1,498.75, largely due to a surge in AMR, the holding company for American Airlines. AMR shot up \$17 to \$100.94 on news that Mr Donald Trump, the New York real estate investor and owner of the Eastern Airlines shuttle, had offered \$120 a share for American Airlines.

The fact that the share price did not rise to a level near to Mr Trump's reported offer price suggests that the market is somewhat sceptical about how serious his intentions are.

Nevertheless, the story provided a significant boost to the airlines sector. Delta rose \$4 to \$78.74 and USAir gained \$1 to \$49.51.

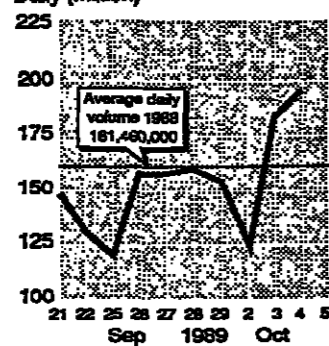
By contrast, UAL fell \$1 to \$49.51.

\$281½ after the decision of United Airlines' machinists not to back the UAL and British Airways buy-out plan in its current form.

Outside the airline sector, the broad market held up well, but was rather defensive after

## NYSE volume

Daily (million)



rate rises led by West Germany and the UK, and in the absence of any sign that the Federal Reserve was easing monetary policy.

The main reason for the solid performance in both the US equity and bond markets was the fact that the dollar was left as buoyant as ever in the wake of rate rises overseas.

The bond market recovered strongly from early weakness to stand a full percentage point higher, a conspicuously good performance, given the fact that the market had only discounted a half point rise in

German interest rates rather than a full percentage point.

Although the buoyancy of the dollar is clearly a positive factor for US markets, the ability of the equity market to maintain record high levels is still impressive, given the substantial gains already made recently. The Dow Jones Industrial Average, for example, gained nearly 80 points in the first three days this week.

Blue chips, which have mostly performed strongly this week, saw some signs of profit-taking. IBM continued to be weak, sinking \$4 to \$107½. Philip Morris, a star performer already this week, surged another \$2 to \$174½.

Technology issues were generally higher after their slump earlier in the week. Motorola added \$4 to \$59.94, Digital Equipment rose \$1 to \$91½, and Sun Microsystems gained \$4 to \$118.75.

## Canada

ACTIVE trading saw Toronto shares close mixed after moving within a narrow range throughout the day.

The composite index ended 3.3 higher at a year's high of 4,028.1. Volume fell to 30m shares from 35m on Wednesday. Declines led advances by 345 to 337.

Noranda rose C\$1½ to C\$38 after saying that net profits for 1989, to include results from the recently acquired Falconbridge, would be substantially better than a year earlier.

## Milan makes plans for promotion

William Cochrane on a study that says shares have room to rise

THIS WEEK, in its 1990 budget, the Italian Government mounted what it called "the most serious attempt of the decade to reform Italy's shaky public finances." It is also studying whether to privatise a limited number of state assets, as a way of helping to combat the country's runaway public sector debt.

Meanwhile, the Istituto Bancario San Paolo di Torino, the second largest and second oldest bank in Italy, has just published a study which acknowledges Italy's faults, says that they are discouraged in the relatively low level of share prices, and highlights positive developments which should accelerate the recent recovery in foreign equity investment.

Seven main conclusions are drawn from the study. First, that while Italy's economy has been a major structural problem in the economy, leading to high interest rates and a rise in interest payments from 5 per cent of GNP in 1980 to 8.1 per cent in 1988.

High interest rates, meanwhile, have not harmed the lira, which has been a relatively strong currency over the last two years and is expected to continue in this vein.

from 8.9 per cent in 1980 to only 1.9 per cent in 1988.

Thirdly, Italian industry has been substantially restructured, says the bank, and is now competitive, with liquidity in its balance sheets. Companies in Italy are also expected to benefit more than most from the 1992 process.

For example, a scheme being studied by the state-owned Sip, to improve the national telephone system, calls for L36,000bn of new investment over the next five years. The banking industry, too, may be prompted to address problems such as fragmentation, the regulatory environment, limited international experience and protectionist laws.

Next, the bank thinks that this week's budget, combining higher indirect taxes with cuts in spending, will attack the large public deficit which has been a major structural problem in the economy, leading to high interest rates and a rise in interest payments from 5 per cent of GNP in 1980 to 8.1 per cent in 1988.

High interest rates, meanwhile, have not harmed the lira, which has been a relatively strong currency over the last two years and is expected to continue in this vein.

The bank thinks that the combination of high interest rates and a stable currency makes the Italian bond market attractive; any prospect of lower interest rates would make it even more so. A rates cut would reduce an already low yield gap between bonds and equities, and so also encourage more investors into the equity market.

The bank also notes that the stock market has lagged other European markets this year and does not reflect progress in company earnings. It believes that higher share price levels are justified, and should be expected.

Liquidity is a problem. Italy's five largest corporate groups - IRI, Agnelli (Fiat), Generali, Ferruzzi and De Benedetti - account for nearly 70 per cent of total stock exchange capitalisation. The non-financial corporate sector owns approximately 70 per cent of outstanding shares, and half of the rest are split between foreign investors and mutual funds.

Foreign activity decreased sharply following the 1986-87 settlement crisis and the crash of 1987, and the trend contin-

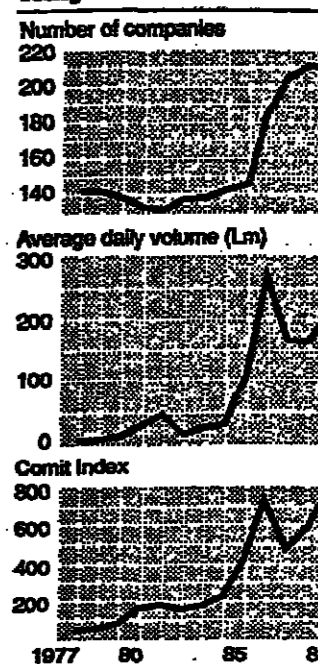
ued last year. However, foreign investors have now changed from being net sellers to modest net buyers, and the San Paolo London office is intent on encouraging this trend.

Mutual funds, one of the main factors behind both the stock market boom of 1984-86 and the subsequent crash, saw two years of continuous redemptions until this August, when there was a net inflow of L138bn. However, after a July/August mini-boom, September was not a good month for Italian equities, and net redemptions returned in September with a figure of L183bn.

Volume has also dropped from an average of L350bn a day during July and August to less than L200bn over the last couple of weeks. New issue activity is picking up; Italian companies are expected to raise approximately L10,000bn of new equity capital this year against L5,000bn in 1988, and this could be seen as a threat to share prices given the weight of funds it adds to the supply side of the equation.

However, says Mr Sam van Houtte of San Paolo, more equity issues would increase the size of the market and this should lead to mature valuation ratios, instead of the low

## Italy



levels of the moment. Excluding the insurance sector, the market has been trading at about 8.4 times expected 1989 earnings compared with 11.6 in West Germany and 34.4 in Japan; it has also been selling at less than four times cash flow and 1.2 times book value. *Italy For The Foreign Investor, San Paolo Group-Istituto Bancario San Paolo di Torino, 9 St Paul's Churchyard, London EC4M 8AL.*

## ASIA PACIFIC

## Nikkei advances with help of less familiar stocks

## Tokyo

ENTHUSIASM for small capital issues and a rush of buying by index-linked funds led Japanese shares higher in spite of concern about higher interest rates, writes Michiko Nakamoto in Tokyo.

After early gains, based on popular small- and medium-sized issues, the Nikkei average fluctuated during the day, moving from a high of 35,536.88 to a low of 35,381.73. Buying from index-linked funds then gave shares a strong boost and the Nikkei closed 140.19 higher at 35,522.92.

Advances led declines by 579 to 395 while 162 issues were unchanged. Turnover rose to 910m shares from the 888m traded on Wednesday. The Topix index of all listed shares, however, lost 2.41 to 2,676.99 and, in London trading, the ISE/Nikkei 50 index eased 0.01 to 2,024.75.

Institutional investors were still cautious about the West German Bundesbank meeting due later in the day. There was speculation that a rise in the Lombard rate could trigger an increase in interest rates elsewhere, including in Japan.

This possibility, at a time when short-term rates in Japan have been at relatively high levels, kept investors away from interest rate-sensitive large capital issues. Nippon Steel, the third most active stock with 11m shares, fell Y9 to Y726 and Mitsubishi Heavy Industries lost Y30 to Y1,080.

Individual investors, nevertheless, were active and showed interest in small and medium-sized issues, particularly laggards and those with quick price movements that could offer them fast profits.

The trend to buy smaller issues was highlighted by the

dominance in the volumes list of stocks such as Daiwa Kosho Lease, Clarion and Naigai, which are hardly household names.

Daiwa Kosho Lease, which leases temporary classrooms, offices and stores, as well as cars and equipment, rose Y60 to Y1,540. It was popular as a laggard and because it expects record profits for the sixth year running.

Clarion, a maker of car stereo systems, was also sought as a laggard and on the strength of its huge land assets. It gained Y130 to Y1,160. Naigai, a sock manufacturer, was sought for its quick price rises and climbed Y140 to Y1,630. Rumours that a speculator was buying shares added to its popularity.

Pioneer, the audio maker, surged Y270 to Y6,030 on the strength of buoyant sales of its laser disc players and on news that it had developed what it said was the world's first rewritable laser disc player.

Nissan Motor, the car maker, was second on the volumes list with 12.2m shares and firmed Y10 to Y1,580. Investors favoured the company's business and its recovery of market share against Toyota, helped by buoyant sales of its luxury cars.

Interest in issues that offered quick gains helped the OSE average in Osaka to close up 97.06 at 36,598.77. Turnover rose to 82m shares from the 78m traded on Wednesday.

## Roundup

TAIWAN made the running in Asia, dropping sharply while movements elsewhere were restricted.

TAIWAN shares plunged for a second day amid rumours of when the Securities and Exchange Commission would

widen the daily share price fluctuation limit to 7 per cent from its current 5 per cent. The weighted index fell 352.18 to 9,317.76, making a two-day drop of 7.2 per cent and taking the index to its lowest level for two months. Volume was less than NT\$85bn, compared with NT\$93bn on Wednesday.

The SEC met yesterday but did not agree on when the move would take effect. However, there have been suggestions that big players are using the SEC plan as an excuse to push prices down, with a view to making gains on the way back.

AUSTRALIA lost ground after four strong sessions, but prices ended off their early lows, with banks leading the recovery. The All Ordinaries index was down 3.1 at 1,772.5 in moderate turnover of 128m shares worth A\$194m.

Qintex Australia rose 3 cents to 50 cents on short-covering after falling heavily recently amid concern over the financing of its purchase of MCM/UA.

HONG KONG made upward mileage for a third consecutive day, with the Hang Seng index rising 8.78 to 2,903.17, its highest level since the collapse following the bloodshed in Peking in June. Sentiment was cautious, however, and turnover slipped from Wednesday's HK\$46bn to HK\$39.5bn.

SINGAPORE was little changed after two days of sharp rises and the Straits Times industrial index eased 3.28 to 1,404.98. Volume retreated to 88m shares from Wednesday's 122m.

MANILA rebounded on foreign buying as the market grew tired of waiting for developments on the bureau of former President Marcos. The composite index rose 37.38 to 1,159.21.

## EUROPE

## Bundesbank move greeted with equanimity

THE long-awaited Bundesbank move came and went and left the big markets undisturbed, writes Our Markets Staff.

PARIS had second thoughts about the Bundesbank's increase in key interest rates, initially dipping on the news but then rebounding to end higher. The OMF 50 index closed 3.4 higher at 529.8, and volume was put at FF43bn.

"It took a while for this was good or bad news," said one analyst. The conclusion was that the 1 point rise in German rates had cleared the uncertainty hanging over the bond and equity markets and represented a ceiling, at least for the short term, so that attention could now switch back to corporate fundamentals.

The only concern was a possible revaluation of the D-Mark within the European Monetary System, and pressure on the French franc, given that French rates rose only 0.75 per cent yesterday.

The corporate fundamentals reassured themselves boldly when LVMH reported a 60 per cent rise in first half profits and the share price climbed FF79 to FF84.845.

There was also interest in Bouygues following its purchase of a majority of Grands Moulins. Bouygues climbed FF70 to FF77.70, with some analysts suggesting the group would sell off Moulins' agribusiness and concentrate on its real estate side. It has large property holdings in Paris.

Euromarché, the retailer, surged FF286 to FF4,506 on takeover speculation. AMSTERDAM followed a similar pattern, suffering jitters before the Bundesbank news, falling and then recovering on the view that the rate rise - matched by the Dutch central bank - ruled out further short term increases.

The CBS tendency index ended just 0.2 lower at 196.7 while the CBS General index edged up 0.3 to 206.5 in turnover worth F1 787m, down from

Wednesday's F1 900m.

NMB was hit hard by concern over the sale of part of the state's holding in the merged NMB-Postbank and the stock plunged F11.30 to F12.55. A shareholders' meeting failed to reach a quorum to approve the merger, so another meeting will be held on October 23.

Océ van der Grinten, the photocopier maker, gained F9 to F132 after announcing a 13 per cent increase in third quarter profits and a five-for-one stock split next year.

FRANKFURT responded to the rate rise in the aftermarket, weakening initially, rebounding and then drifting back to where it was at the official close.

This was reasonably encouraging. The DAX index had made a 2.08 rise on the day to 1,616.21 in moderate trading, after a decline of 0.46 to 675.43 in the mid-session FAZ.

Traders said that the Bundesbank's postscript to the rate rises - a prospective cut in the 'repo' rate for money market funds from a 7.4-7.5 per cent range to a fixed 7.5 per cent - added a settled feeling to the interest rate situation, which might be a cue for a renewed rise in share prices.

Among the day's more active shares, Bayer rose DM5 to DM306.50 on foreign orders and the engineering group MAN gained DM6.60 to DM386.00. KfW-Kredit-Humboldt-Deutz (KHD) added DM3 to DM207.40; its subsidiary, KHD Humboldt Wedag, received a sewage equipment order from two US cities worth DM100m.

ZURICH climbed in active trading and the Credit Suisse index closed 4.7 higher at 651.9. Interest rate expectations were overshadowed by Swiss legislative approval of a law further limiting the amount of money

pension funds and insurance companies can invest in real estate. The law, which goes into effect tomorrow, could mean that as much as SF20bn of new money will become available for investment in equities.

OSLO was preoccupied with corporate news, and the all-share index slipped 2.33 to 522.83 in moderate trading.

Den Norske Creditbank and Bergen Bank were suspended before announcing that they would merge to form Norway's largest bank to be called Den Norske Bank. Bergen reported eight-month net profits up 250 per cent to Nkr544m, while DNC announced a net loss of Nkr272m over the same period.

In the oil sector, Norsk Hydro, unchanged at Nkr152, said it planned to buy DNC's stake in Saga Petroleum for Nkr140 a share. Saga gained Nkr2 to Nkr250.

MADRID weakened again, the general index losing 1.31 to 323.31. Mr Stephen Hughes, analyst at Nikko Securities, says elections on October 29 are likely to induce caution and little significant movement can be expected until the economic situation is clarified.

HELSINKI made its fourth consecutive decline in low turnover. Union Bank of Finland restricted A shares lost Fm0.60 to Fm37.90 after the bank reported lower pre-tax profits for the first eight months of the year.

BRUSSELS made early gains on the hope that interest rate rises would be restricted to half a point, but lost some ground on news of the size of the West German and domestic interest rate increases.

COPENHAGEN continued in positive frame of mind in spite of a local interest rate rise. The index added 2.44 to 338.98.

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## FT-ACTUARIES WORLD INDICES

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REGIONAL AND NATIONAL MARKETS	THURSDAY OCTOBER 5 1989					WEDNESDAY OCTOBER 4 1989					DOLLAR INDEX		
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's % change local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)	
Figures in parentheses show number of stocks per grouping													
Australia (85)	158.93	+0.0	146.36	135.94	-0.1	4.86	158.93	146.86	136.10	159.02	128.28	137.80	
Austria (19)	165.23	+2.0	163.08	162.24	+2.1	1.51	163.03	160.65	159.94	166.23	92.84	88.54	
Belgium (63)	142.37	+0.1	131.10	139.39	+0.5	3.97	142.18	131.38	138.67	144.47	125.58	123.04	
Canada (122)	153.89	+0.2	141.71	130.54	+0.2	3.14	155.65	141.58	130.73	153.89	124.67	121.08	
Denmark (30)	159.64	+0.3	103.84	109.57	+0.6	1.59	159.64	103.96	109.09	165.35	125.00	132.28	
Finland (28)	124.98	+0.1	115.09	111.63	-0.3	2.48	124.86	115.37	111.54	159.16	123.12	114.11	
France (126)	138.22	+0.1	127.29	138.55	+0.4	2.72	138.13	127.64	138.02	139.67	112.57	100.06	
West Germany (87)	102.50	-0.5	94.39	100.48	-0.1	2.04	103.06	95.23	100.58	103.06	79.56	79.94	
Hong Kong (48)	118.44	+0.2	109.07	118.66	+0.2	4.78	118.21	108.23	118.40	140.33	86.41	89.39	
Ireland (17)	162.33	+0.2	149.48	161.19	+0.2	2.75	162.04	149.73	160.91	169.69	125.00	134.96	
Italy (97)	92.32	-1.1	85.01	95.15	-0.7	2.40	93.36	86.27	95.60	96.73	74.97	78.28	
Japan (455)	185.27	-1.2	170.60	166.65	-0.3	0.48	187.44	173.20	167.12	200.11	164.22	157.48	
Malaysia (36)	207.77	+0.4	191.32	215.13	+0.3	2.46	205.88	191.16	214.67	207.77	143.35	131.76	
Mexico (13)	312.82	+1.0	287.79	288.70	+1.0	0.57	308.51	285.89	287.81	321.59	153.82	154.88	
Netherlands (43)	131.24	-0.2	120.85	127.46	+0.1	4.16	131.51	121.52	127.26	131.51	110.63	102.63	
New Zealand (19)	82.11	-0.6	75.61	74.97	-1.0	4.58	82.62	76.34	75.70	88.18	62.74	70.76	
Norway (24)	184.00	-0.7	169.44	174.07	-0.3	1.49	185.22	171.15	174.68	198.39	139.92	114.64	
Singapore (26)	166.00	+0.8	152.87	149.87	+0.3	1.96	164.93	152.40	164.93	166.00	124.57	114.64	
South Africa (80)	157.74	-0.2	145.28	134.43	-0.4	4.27	158.10	146.08	134.99	160.24	115.35	107.61	
Spain (43)	165.67	-1.0	152.56	150.36	-0.4	3.47	167.39	154.82	150.98	169.76	143.14	140.96	
Sweden (35)	182.30	-0.4	167.88	174.48	-0.1	1.96	182.97	169.07	174.57	189.94	138.45	128.27	
Switzerland (64)	92.01	+0.7	84.73	83.32	+1.3	2.22	91.93	84.99	92.12	94.16	67.61	77.78	
United Kingdom (306)	150.93	-1.1	138.59	138.59	-1.4	4.35	152.54	140.85	140.85	158.41	123.26	123.81	
USA (547)	145.14	+0.1	133.66	145.14	+0.1	3.17	145.07	134.05	145.07	145.14	112.13	111.37	
Europe (886)	130.92	-0.8	120.56	125.01	-0.5	3.36	131.71	121.70	125.65	132.05	112.83	106.61	
Nordic (121)	168.07	-0.1	154.77	158.92	+0.2	1.81	168.30	155.51	166.57	173.38	137.95	115.51	
Pacific Basin (669)	181.71	-1.1	167.33	163.57	-0.3	0.72	183.70	169.75	169.01	194.72	160.44	154.36	
Euro-North America (1655)	161.52	-0.9	148.73	148.06	-0.3	1.59	163.02	150.84	144.58	166.98	141.56	135.29	
North America (659)	145.58	+0.1	134.04	144.25	+0.1	3.17	145.48	134.43	144.17	145.58	112.78	111.88	
Europe Ex. UK (680)	117.78	-0.3	108.46	116.27	+0.1	1.89	118.15	108.15	116.15	118.15	92.30	92.30	
Pacific Ex. Japan (214)	138.65	+0.2	127.86	134.65	+0.2	4.62	138.74	128.20	129.94	138.65	111.93	116.71	
USA Ex. USA (1830)	161.81	-0.1	148.54	147.61	-0.1	1.67	162.74	150.38	148.10	166.36	141.49	134.54	
World Ex. UK (2101)	154.80	-0.5	142.55	147.47	-0.1	1.95	155.93	143.80	147.60	158.04	138.98	125.09	
World Ex. So. Af. (2347)	154.42	-0.6	142.20	145.75	-0.2	2.16	155.32	143.52	147.05	155.92	128.67	125.60	
World Ex. Japan (1952)	140.08	-0.2	128.99	136.71	-0.2	3.30	140.33	129.66	136.91	140.33	114.51	110.21	
The World Index (2407)	154.44	-0.8	142.22	146.66	-0.2	2.16	155.34	145.63	146.86	165.89	136.68	125.49	